No. 15-1189

Title:	Impression Products, Inc., Petitioner v. Lexmark International, Inc.
Docketed:	March 22, 2016
Lower Ct:	United States Court of Appeals for the Federal Circuit
Case Nos.:	(2014-1617, 2014-1619)
Decision Date:	February 12, 2016

Questions Presented

~~Date~~~	~~~~~~~Proceedings and Orders~~~~~~~~~~~~~~~~~~~~~~
Mar 21 2016	Petition for a writ of certiorari filed. (Response due April 21, 2016)
Mar 25 2016	Order extending time to file response to petition to and including May 23, 2016.
Mar 28 2016	Consent to the filing of amicus curiae briefs, in support of either party, or of neither party, received from counsel for the respondent.
Apr 20 2016	Brief amici curiae of Public Knowledge, et al. filed.
Apr 20 2016	Brief amici curiae of Association of Service and Computer Dealers International, Inc., et al. filed.
Apr 21 2016	Brief amici curiae of Costco Wholesale Corporation, et al. filed.
Apr 21 2016	Brief amici curiae of Auto Care Association, et al. filed.
Apr 21 2016	Brief amicus curiae of Sandisk Corporation filed.
Apr 21 2016	Brief amicus curiae of The Association of Medical Device Reprocessors filed.
Apr 21 2016	Brief amici curiae of Intellectual Property Professors, et al. filed.
Apr 21 2016	Brief amici curiae of Intel Corp., et al. filed.
May 23 2016	Brief of respondent Lexmark International, Inc. in opposition filed.
May 27 2016	Letter of May 27, 2016, received from counsel for petitioner waiving the 14-day waiting period for the filing of a reply brief pursuant to Rule 15.5.
May 31 2016	DISTRIBUTED for Conference of June 16, 2016.
Jun 2 2016	Reply of petitioner Impression Products, Inc. filed. (Distributed)
Jun 20 2016	The Solicitor General is invited to file a brief in this case expressing the views of the United States.
Oct 12 2016	Brief amicus curiae of United States filed.
Nov 1 2016	Supplemental brief of respondent Lexmark International, Inc. filed. (Distributed)
Nov 2 2016	DISTRIBUTED for Conference of November 22, 2016.
Nov 3 2016	Supplemental brief of petitioner Impression Products, Inc. filed. (Distributed)
Nov 28 2016	DISTRIBUTED for Conference of December 2, 2016.
Dec 2 2016	Petition GRANTED.
Dec 20 2016	Consent to the filing of amicus curiae briefs, in support of either party or of neither party, received from counsel for respondent.
Jan 17 2017	Joint appendix filed. (Statement of costs filed)
Jan 17 2017	Brief of petitioner Impression Products, Inc. filed.
Jan 20 2017	Brief amicus curiae of Professor Frederick M. Abbott. filed.

Jan 23 2017	Brief amici curiae of Public Knowledge, et al. filed.
Jan 23 2017	Brief amici curiae of Professor Robin Feldman, et al. filed.
Jan 23 2017	Brief amici curiae of Association of Service and Computer Dealers International, Inc., et al. filed.
Jan 24 2017	Brief amicus curiae of United States supporting reversal in part and vacatur in part filed.
Jan 24 2017	Brief amicus curiae of Austin Intellectual Property Law Association in support of neither party filed.
Jan 24 2017	Brief amicus curiae of Huawei Technologies Co., Ltd. filed.
Jan 24 2017	Brief amici curiae of Costco Wholesale Corporation, et al. filed.
Jan 24 2017	Brief amicus curiae of Licensing Executives Society (U.S.A. and Canada), Inc. in support of neither party filed.
Jan 24 2017	Brief amicus curiae of American Intellectual Property Law Association in support of neither party filed.
Jan 24 2017	Brief amicus curiae of Quanta Computer Inc. filed.
Jan 24 2017	Brief amici curiae of Intel Corp., Dell Inc., and Vizio Inc. filed.
Jan 24 2017	Brief amici curiae of Auto Care Association, et al. filed.
Jan 24 2017	Brief amici curiae of Intellectual Property Professors, et al. filed.
Jan 24 2017	Brief amicus curiae of Public Citizen, Inc. filed.
Jan 24 2017	Brief amicus curiae of the Association of Medical Device Reprocessors filed.
Jan 24 2017	Brief amici curiae of Professors John F. Duffy and Richard M. Hynes in support of neither party filed.
Jan 24 2017	Brief amici curiae of HTC Corporation and HTC America, Inc. filed.
Jan 24 2017	Brief amicus curiae of Mitchell Hamline School of Law Intellectual Property Institute filed.
Feb 3 2017	SET FOR ARGUMENT on Tuesday, March 21, 2017
Feb 3 2017	Record requested from the U.S.C.A. for the Federal Circuit.
Feb 16 2017	Brief of respondent Lexmark International, Inc. filed.
Feb 17 2017	Motion of the Acting Solicitor General for enlargement of time for oral argument, for leave to participate in oral argument as amicus curiae, and for divided argument filed.
Feb 22 2017	CIRCULATED.
Feb 22 2017	Brief amicus curiae of Imaging Supplies Coalition filed. (Distributed)
Feb 22 2017	Brief amicus curiae of Intellectual Property Owners Association filed. (Distributed)
Feb 22 2017	Brief amicus curiae of New York Intellectual Property Law Association filed. (Distributed)
Feb 23 2017	Brief amici curiae of Medtronic PLC, and Zimmer Biomet Holdings, Inc. filed. (Distributed)
Feb 23 2017	Brief amicus curiae of Dolby Laboratories, Inc. filed. (Distributed)
Feb 23 2017	Brief amicus curiae of Qualcomm Incorporated filed. (Distributed)
Feb 23 2017	Brief amicus curiae of International Business Machines Corporation filed. (Distributed)
Feb 23 2017	Brief amici curiae of Law Professors Adam Mossoff and Gregory Dolin filed. (Distributed)
Feb 23 2017	Brief amicus curiae of Boston Patent Law Association filed. (Distributed)
Feb 23 2017	Brief amici curiae of Biotechnology Innovation Organization, and CropLife International filed.
Feb 23 2017	Brief amici curiae of Nokia Technologies Oy, and Nokia USA Inc. filed. (Distributed)
Feb 23 2017	Brief amicus curiae of Plantronics, Inc. filed. (Distributed)
Feb 23 2017	Brief amicus curiae of Medical Device Manufacturers Association filed. (Distributed)
Feb 23 2017	Brief amici curiae of 44 Law, Economics and Business Professors filed. (Distributed)
Feb 23 2017	Brief amicus curiae of Interdigital, Inc. filed. (Distributed)
Feb 23 2017	Brief amicus curiae of Pharmaceutical Research and Manufacturers of America filed. (Distributed)

Mar 6 2017	Motion of the Acting Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument is granted in part, and the time is to be divided as follows: 25 minutes for petitioner, 10 minutes for the Acting Solicitor General, and 30 minutes for respondent.
Mar 14 2017	Reply of petitioner Impression Products, Inc. filed. (Distributed)
Mar 21 2017	Argued. For petitioner: Andrew J. Pincus, Washington, D. C.; and Malcolm L. Stewart, Deputy Solicitor General, Department of Justice, Washington, D. C. (for United States, as amicus curiae.) For respondent: Constantine L. Trela, Jr., Chicago, Ill.
Mar 21 2017	Record received from the U.S.C.A. for the Federal Circuit. The record is available on PACER, except for the Confidential Joint Appendix which was transmitted separately.
May 30 2017	Judgment REVERSED and case REMANDED. Roberts, C. J., delivered the opinion of the Court, in which Kennedy, Thomas, Breyer, Alito, Sotomayor, and Kagan, JJ., joined. Ginsburg, J., filed an opinion concurring in part and dissenting in part. Gorsuch, J., took no part in the consideration or decision of this case.
Jul 3 2017	JUDGMENT ISSUED.

~~Name~~~~~~~~~~~~~~~~~~~~~~~~	~~~~~~~~Address~~~~~~~~~~~~~~~~~~~~	~~Phone~~~~
Attorneys for Petitioner:		
Andrew J. Pincus Counsel of Record	Mayer Brown LLP 1999 K Street, NW Washington, DC 20006 apincus@mayerbrown.com	(202) 263-3000
Party name: Impression Products, Inc.		
Attorneys for Respondent:		
Constantine L. Trela Jr. Counsel of Record	Sidley Austin, LLP 1 South Dearborn St. Chicago, IL 60603 ctrela@sidley.com	(312) 853-7000
Party name: Lexmark International, Inc.		
Other:		
Frederick Michael Abbott	Florida State University College of Law 425 W. Jefferson St. Tallahassee, FL 32301 fabbott@law.fsu.edu	(850) 644-1572
Party name: Professor Frederick M. Abbott.		
Steven Anzalone	Winston & Strawn LLP 1700 K Street, NW Washington, DC 20006-3817 sansalone@winston.com	(202) 282-5382
Party name: HTC Corporation and HTC America, Inc.		
Garrard R. Beeney	Sullivan & Cromwell LLP 125 Broad Street	(212) 558-4000

	New York, NY 10004-2498 beeneyg@sullcrom.com	
Party name: Dolby Laboratories, Inc..		
Paul D. Clement	Kirkland & Ellis LLP 655 Fifteenth Street, N.W. Washington, DC 20005 paul.clement@kirkland.com	(202) 879-5000
Party name: International Business Machines Corporation		
Kathleen A. Daley	Finnegan, Henderson, Farabow, Garrett & Dunner, LLP 901 New York Ave., NW Washington, DC 20001-4413 kathleen.daley@finnegan.com	(202) 408-4000
Party name: Medtronic PLC and Zimmer Biomet Holdings, Inc.		
Mark S. Davies	Orrick, Herrington & Sutcliffe LLP 1152 15th Street NW Washington, DE 20005 mark.davies@orrick.com	(202) 339-8400
Party name: Intel Corp., Dell Inc., and Vizio Inc.		
Matthew James Dowd	Dowd PLLC 1717 Pennsylvania Avenue, NW Suite 1025 Washington, DC 20006 mjdowd@dowdpllc.com	(202) 573-3853
Party name: Professors John F. Duffy and Richard M. Hynes in support of neither party		
Charles Duan	Public Knowledge 1818 N Street, NW, Suite 410 Washington, DC 20036 cduan@publicknowledge.org	(202) 861-0020
Party name: Public Knowledge, et al.		
Robin C. Feldman	Director of the Institute for Innovation Law University of California Hastings College of the Law 200 McAllister St. San Francisco, CA 94102 feldmanr@uchastings.edu	(415) 565-4661
Party name: Professor Robin Feldman, et al.		
Barbara A. Fiacco	Foley Hoag LLP	(617) 832-1000

	155 Seaport Boulevard Boston, MA 02210 bfiacco@foleyhoag.com	
Party name: Biotechnology Innovation Organization, and CropLife International		
Seth D. Greenstein	Constantine Cannon LLP 1001 Pennsylvania Ave., N.W. Suite 1300 North Washington, DC 20004 sgreenstein@constantinecannon.com	(202) 204-3500
Party name: Auto Care Association, et al.		
Jeffrey L. Handwerker	Arnold & Porter, Kaye, Scholer, LLP 601 Massachusetts Ave., NW Washington, DC 20001 jeffrey.handwerker@apks.com	(202) 942-5000
Party name: Pharmaceutical Research and Manufacturers of America		
John D. Haynes	Alston & Bird LLP 1201 W. Peachtree Street Atlanta, GA 30309 john.haynes@alston.com	(404) 881-7000
Party name: Nokia Technologies Oy, and Nokia USA Inc.		
Steven A. Hirsch	Keker & Van Nest LLP 633 Battery Street San Francisco, CA 94111 shirsch@kvn.com	(415) 391-5400
Party name: Sandisk Corporation		
Rachel C. Hughey	Merchant & Gould PC 3200 IDS Center 80 South Eighth Street Minneapolis, MN 55402 rhughey@merchantgould.com	(612) 336-4688
Party name: Plantronics, Inc.		
Robert M. Isackson	Venable LLP 575 Seventh Street, NW Washington, DC 20004 rmIsackson@venable.com	(202) 344-4000
Party name: Intellectual Property Owners Association		
Miranda Yan Jones	Heim Payne and Chorush LLP Heritage Plaza 1111 Bagby, Suite 77002	(713) 221-2000

	Houston, TX 77002 mjones@hpcllp.com	
Party name: Law Professors Adam Mossoff and Gregory Dolin		
W. Douglas Kari	Chief Legal Officer ASCDI/NATD 15330 Barranca Parkway Irvine, CA 92618 doug.kari@arbitech.com	(949) 936-2302
Party name: Association of Service and Computer Dealers International, Inc., et al.		
Jeffrey A. Lamken	MoloLamken LLP The Watergate, Suite 660 600 New Hampshire Ave., NW Washington, DC 20037 jlamken@mololamken.com	(202) 556-2000
Party name: Qualcomm Incorporated		
Ariel N. Lavinbuk	Robbins, Russell, Englert, Orseck, Untereiner & Sauber, LLP 1801 K St, NW Suite 411L Washington, DC 20006 alavinbuk@robbinsrussell.com	(202) 775-4500
Party name: Costco Wholesale Corporation, et al.		
Noah Maxim Leibowitz	Simpson Thacher & Bartlett LLP 425 Lexington Avenue New York, NY 10017 nleibowitz@stblaw.com	(212) 455-2000
Party name: New York Intellectual Property Law Association		
Phillip Robert Malone	Stanford Law School Juelsgaard Intellectual Property and Innovation Clinic 559 Nathan Abbott Way Stanford, CA 94305 pmalone@law.stanford.edu	(650) 725-6369
Party name: Intellectual Property Professors, et al.		
R. Carl Moy	Mitchell Hamline School of Law Intellectual Property Institute 875 Summit Avenue St. Paul, MN 55105	(651) 290-6344
Party name: Mitchell Hamline School of Law Intellectual Property Institute		

Scott L. Nelson — Public Citizen Litigation Group, 1600 20th Street, N.W., Washington, DC 20009, snelson@citizen.org — (202) 588-1000

Party name: Public Citizen, Inc.

David W. O'Brien — Haynes and Boone, LLP, 600 Congress Avenue, Suite 1300, Austin, TX 78701-3285, david.obrien@haynesboone.com — (512) 867-8457

Party name: Austin Intellectual Property Law Association in support of neither party

Mark Schonfeld — Burns & Levinson LLP, 125 Summer Street, Boston, MA 02110, mschonfeld@burnslev.com — (617) 345-3000

Party name: Imaging supplies Coalition.

Daniel Leavitt Shores — Shores & Oliver, PC, One Boston Place, suite 2600, Boston, MA 02108, daniel.shores@shoresoliver.com — (617) 981-7833

Party name: Boston Patent Law Association

Ted M. Sichelman — University of San Diego School of Law, 5998 Alcala Park, Guadalupe Hall, San Diego, CA 92110, tsichelman@sandiego.edu — (619) 260-7512

Party name: 44 Law, Economics and Business Professors

David Sidney Steuer — Wilson Sonsini Goodrich &Rosati, 650 Page Mill Road, Palo Alto, CA 94304, dsteuer@wsgr.com — (650) 493-9300

Party name: Interdigital, Inc.

Malcolm L. Stewart — Deputy Solicitor General, Department of Justice, Washington, DC 20530, malcolm.l.stewart@usdoj.gov — (202) 514-2201

Party name: United States

Paul A. Stewart — Knobbe Martens Olson & Bear LLP, 2040 Elm Street, 14th Floor, Irvine, CA 92614, paul.stewart@knobbe.com — (949) 760-0404

Party name: Medical Device Manufacturers Association

Aaron M. Streett	Baker Botts, L.L.P. 910 Louisiana Street Houston, TX 77002-4995 aaron.streett@bakerbotts.com	(713) 229-1855

Party name: Huawei Technologies Co., LTD.

Daniel S. Stringfield	Steptoe & Johnson LLP 115 South LaSalle Street, Suite 3100 Chicago, IL 60603 dstringfield@steptoe.com	(312) 577-1300

Party name: Licensing Executives Society (U.S.A. and Canada), Inc. in support of neither party

Robert A. Surrette	McAndrews, Held and Malloy, Ltd. 500 West Madison Street 34th Floor Chicago, IL 60661 bsurrette@mcandrews-ip.com	(312) 775-8000

Party name: The Association of Medical Device Reprocessors

Jeffrey B. Wall	Acting Solicitor General United States Department of Justice 950 Pennsylvania Avenue, N.W. Washington, DC 20530-0001 SupremeCtBriefs@USDOJ.gov	(202) 514-2217

Party name: United States

Peter J. Wied	LTL Attorneys LLP 300 South Grand Avenue 14th Floor Los Angeles, CA 90071-2228 peter.wied@ltlattorneys.com	(213) 612-8900

Party name: Quanta Computer Inc.

Kristin Leigh Woycik Yohannan	Mildred Tweed Hadley & McCloy LLP 1850 K Street NW Washington, DC 22215 kyohannan@millbank.com	(202) 835-7500

Party name: American Intellectual Law Association in support of neither party

RECORD AND BRIEFS

Supreme Court, U.S.
FILED
MAR 2 1 2016
OFFICE OF THE CLERK

No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

Counsel for Petitioner

Library of Congress

QUESTIONS PRESENTED

The "patent exhaustion doctrine"—also known as the "first sale doctrine"—holds that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). This case presents two questions of great practical significance regarding the scope of this doctrine on which the *en banc* Federal Circuit divided below:

1. Whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

RULE 29.6 STATEMENT

Petitioner Impression Products, Inc. has no parent corporation. No publicly held company owns 10% or more of its stock.

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1 Edward Coke, *Institutes of the Laws of England* § 360 (5th ed. 1656) 22

5 Donald S. Chisum, *Chisum on Patents* (1997) 30

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Gene M. Grossman & Edwin L.C. Lai, *Parallel Imports and Price Controls*, 39 Rand J. Econ. 378 (2008) 34

Richard H. Stern, *Post-Sale Patent Restrictions After* Mallinckrodt*—An Idea in Search of Definition*, 5 Alb. L.J. Sci. & Tech. 1 (1994) 23

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-135a) is not yet reported. The opinion of the district court addressing the "conditional sale" doctrine (App., *infra*, 140a-155a) is unreported, but is available at 2014 WL 1276133. The opinion of the district court addressing international exhaustion (App., *infra*, 156a-169a) is reported at 9 F. Supp. 3d 830.

JURISDICTION

The judgment of the court of appeals was entered on February 12, 2016. This Court's jurisdiction rests on 28 U.S.C. § 1254(1).

STATEMENT

A valid patent provides the patentee with a monopoly over the first sale of any good that embodies the patented invention. If a competitor sells a product using the patented technology, the patentee may sue for infringement.

The "patent exhaustion doctrine" (also known as the "first sale doctrine") imposes a critical limit on the patentee's rights. It provides that the first authorized sale of an article exhausts the patentee's *patent* rights to that article. This doctrine enables resale of a car or a lawnmower or any other patented good without incurring liability for patent infringement. Absent patent exhaustion, every secondary market in patented goods would grind to a halt.

This case presents two different, but related, questions of very substantial legal and practical importance regarding patent exhaustion. Indeed, the questions are so consequential—and this case is such an ideal vehicle for resolving them—that the Federal Circuit, acting *sua sponte*, took the extraordinary

step of initially hearing this case *en banc*. The court received thirty-three *amicus* briefs, including a submission by the United States.

The first question is whether a patentee may circumvent the patent exhaustion doctrine by expressly specifying post-sale restrictions on the use or resale of the patented article at the time the patentee transfers title to the purchaser. Reaffirming its earlier decision in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), the court below concluded that a patentee may use patent law to enforce post-sale restrictions, so long as those restrictions are clearly communicated.

That holding squarely conflicts with this Court's consistent teaching regarding the scope of the exhaustion doctrine. As the dissenting judges put it, there is "no colorable basis for the majority's failure to follow the exhaustion rule for domestic sales as articulated by the [Supreme] Court in *Quanta* and numerous other cases." App., *infra*, 124a-125a. Indeed, the United States has twice asked this Court to repudiate *Mallinckrodt*, and it reiterated that position in its *amicus* brief below.

The second question presented is whether patent exhaustion applies to articles that a U.S. patentee sells abroad—the issue addressed by this Court in the copyright context in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). The court of appeals affirmed its decision in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), holding that a sale made by a patentee outside the United States does not exhaust its U.S. patent rights. That, of course, is the opposite result from the one reached by this Court in *Kirtsaeng*.

This holding also warrants review. *Jazz Photo* was wrong when it was decided—indeed, the Court's analysis in *Kirtsaeng* is controlling, because the patent law, unlike the copyright law, does not contain a statutory provision addressing exhaustion doctrine. The *Kirtsaeng* Court's determination that the common law rule against restraints on alienation "makes no geographical distinctions" (133 S. Ct. at 1363) is therefore dispositive here. The Federal Circuit majority's decision also conflicts with the position advanced by the United States in its *amicus* brief. And the question has enormous practical importance, because the majority's ruling enables a patentee to disrupt international commerce by improperly extracting multiple payments for the same good.

A. Legal background.

A patentee may preclude another from making, using, or selling an article that embodies its patented invention. 35 U.S.C. § 271(a). "Under the doctrine of patent exhaustion," however, "the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article." *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013). That is because "the initial authorized sale of a patented item terminates all patent rights to that item" (*Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 625 (2008)), and the first sale "confers on the purchaser, or any subsequent owner, 'the right to use or sell' the thing as he sees fit." *Bowman*, 133 S. Ct. at 1766 (alteration omitted; quoting *United States* v. *Univis Lens Co.*, 316 U.S. 241, 249-250 (1942)).

The Federal Circuit has recognized two substantial exceptions to the patent exhaustion doctrine. First, in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976

F.2d 700 (Fed. Cir. 1992), the court of appeals held that a patentee may transfer title to the patented article and specify a putative post-sale reuse or resale restriction on the article that, notwithstanding the exhaustion doctrine, may be enforced by means of the patent laws. Second, in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001), the Federal Circuit held that a patentee's U.S. patent rights are not exhausted when it sells (or authorizes the sale of) the patent article outside the United States.

B. Factual background.

This case concerns toner cartridges for laser printers—the part containing the ink used by a printer that is replaced by a new cartridge when the ink is used up—and Lexmark's continued efforts to "dominate[] the market for cartridges compatible with its printers." *Lexmark Int'l, Inc.* v. *Static Control Components, Inc.*, 134 S. Ct. 1377, 1383 (2014).

Because printer manufacturers often patent certain aspects of the toner cartridges used in their printers, the manufacturer may maintain a legal monopoly over the sale of new toner cartridges. Lexmark, a printer manufacturer, thus sells its new cartridges at a substantial premium, often charging hundreds of dollars for a single toner cartridge. After a cartridge is spent, however, "remanufacturers," may "acquire used Lexmark toner cartridges, refurbish them, and sell them in competition with new and refurbished cartridges sold by Lexmark." *Ibid.*

Impression, a small business located in Charleston, West Virginia, is one such remanufacturer. App., *infra*, 10a. Impression purchases cartridges that

Lexmark initially sold both inside and outside of the United States. *Id.* at 13a.

Lexmark, however, "would prefer that its customers return their empty cartridges to it for refurbishment and resale, rather than sell those cartridges to a remanufacturer." *Static Control Components*, 134 S. Ct. at 1383. It thus offers its customers the option to purchase a "'Return Program Cartridge' at a discount of roughly 20 percent, subject to a single-use/no-resale restriction." App., *infra*, 10a. These cartridges contain a restriction that "the buyer may not reuse the cartridge after the toner runs out and may not transfer it to anyone but Lexmark once it is used." *Ibid.*

Respondent maintains that its transfer of the Return Program Cartridges to its customers constitutes a sale of property; it specifically disclaims that the legal arrangement qualifies as a lease. App., *infra*, 11a n.1. According to respondent, a customer who purchases a "Return Program Cartridge" "is not absolutely required to return the cartridge to Lexmark." *Ibid.*

C. Proceedings below.

In 2010, Lexmark sued several remanufacturers, including Impression, for direct and contributory patent infringement. App., *infra*, 12a-13a. Only Impression remains in this case, as the claims against all other defendants have been resolved. *Id.* at 13a.

The parties entered various agreements that have "narrow[ed]" the "focus" of this dispute. App., *infra*, 13a. In particular:

- Only a "single count of infringement" remains against Impression, who does "not dis-

pute the validity or enforceability of the patents." *Ibid.*

- For present purposes, no one disputes that all relevant parties had adequate notice of the conditions Lexmark putatively placed on the Return Program cartridges. *Id.* at 14a.
- Lexmark does not assert that Impression's refurbishment of the cartridges—which includes "the chip replacement and ink replenishment"—"result[s] in new articles, which would be outside the scope of the exhaustion doctrine." *Id.* at 12a n.2.

As a result, the two questions presented by this petition are each independently determinative of the claims that Lexmark asserts against Impression; the conditional sale question resolves Lexmark's claim as to Impression's refurbishment of domestically-sold Return Program Cartridges, and the international exhaustion question resolves Lexmark's claims with respect to cartridges initially sold abroad.

1. The district court granted Impression's motion to dismiss as to the cartridges first sold in the United States. App. *infra*, 140a-155a. The court held that the Federal Circuit's decision in *Mallinckrodt* had been overruled by this Court's ruling in *Quanta*. *Id.* at 153a-154a. Holding otherwise, the court stated, would "create significant uncertainty for downstream purchasers and end users who may continue to liable for infringement even after an authorized sale to the consumer has occurred." *Id.* at 154a. The court concluded "that the fully authorized sales of the Return Program cartridges to consumers for use in the ordinary pursuits in life took the cartridges outside the

scope of the patent monopoly despite the notices contained on those cartridges." *Ibid.*

With respect to the cartridges first sold abroad, the district court denied Impression's motion to dismiss. App., *infra*, 169a. The court considered whether this Court's decision in *Kirtsaeng* relieved it of its obligation to otherwise follow the Federal Circuit's decision in *Jazz Photo*. It concluded that this Court "did not intend to implicitly overrule *Jazz Photo* and that *Jazz Photo* remains controlling precedent on patent exhaustion abroad." *Ibid.*

The parties subsequently entered a stipulated final judgment. The district court entered judgment in favor of Impression as to the Return Program cartridges and in favor of Lexmark as to the cartridges initially sold abroad. App., *infra*, at 17a-18a. Both parties subsequently appealed. *Id.* at 18a.

2. After the parties briefed the case and argued it before a panel, the Federal Circuit *sua sponte* issued an order directing that the matter would be decided, in the first instance, by the *en banc* court. App., *infra*, 18a-19a. The court identified as the controlling questions whether it should overrule either *Jazz Photo* or *Mallinckrodt*. *Id.* at 19a.[1]

With respect to the conditional sale doctrine, the majority reaffirmed *Mallinckrodt*. App., *infra*, 26a-62a. It held that *Quanta* did not overrule *Mallinckrodt* (*id.* at 30a-37a), and that *Mallinckrodt* is compatible with this Court's precedents addressing the exhaustion doctrine. *Id.* at 35a-62a. The majority

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[1] Lexmark itself recognized that these two issues are the sole questions presented by this dispute. See, *e.g.*, Fed. Cir. Dkt. No. 28, at 1-2.

concluded that a patentee may enforce, under the patent law, a restriction placed on the good at the time of sale: "A sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the 'authority' to engage in the use or resale that the restriction precludes." *Id.* at 26a.

With respect to international exhaustion, the majority reaffirmed *Jazz Photo*'s holding that patent exhaustion "cannot rest on a foreign first sale." App., *infra*, 67a. It concluded that *Kirtsaeng* was limited to the "statutory question" whether the Copyright Act's first sale doctrine (codified at 17 U.S.C. § 109(a)) applies abroad and that the decision's reasoning therefore "cannot be transposed to the patent-law setting." *Id.* at 73a. The majority concluded, in accord with *Jazz Photo*, that sale outside the United States of a patented item does not exhaust U.S. patent rights. It relied on this Court's decision in *Boesch* v. *Graff*, 133 U.S. 697 (1890), which it read to "preclud[e] foreign control of U.S. [patent] rights." App., *infra*, 84a.

3. Judge Dyk, joined by Judge Hughes, dissented. App., *infra*, 105a-135a. With respect to the conditional sale issue, the dissent stated that "*Mallinckrodt* was wrong when decided," because this Court has "repeatedly held that the authorized sale of a patented article exhaust[s] all of the patentee's patent rights in that article." *Id.* at 105a, 109a. The dissent catalogued in detail the decisions of this Court conflicting with *Mallinckrodt*. *Id.* at 107a-109a. And, "in any event," the dissent added, *Mallinckrodt* "cannot be reconciled with the Supreme Court's recent decision in *Quanta* * * *." *Id.* at 105a. In the dissent's view, the court of appeals "exceed[ed] [its] role as a subordinate court by declining to follow the explicit

domestic exhaustion rule announced by the Supreme Court." *Id.* at 105a-106a. See also *id.* at 118a ("The majority's justifications for refusing to follow Supreme Court authority establishing the exhaustion rule misconceive our role as a subordinate court.").

Turning to the international exhaustion issue, the dissenters concluded that *Jazz Photo* should be overruled in part. App., *infra*, 125a-135a. They determined that a foreign sale authorized by the U.S. patentee would not, "in all circumstances," exhaust U.S. patent rights, but would have adopted the position advanced by the United States—holding "that the foreign sale should result in exhaustion if the authorized seller does not explicitly reserve its United States patent rights." *Id.* at 125a.

REASONS FOR GRANTING THE PETITION

This case presents two questions whose resolution has extraordinarily important consequences for the scope of the patent monopoly and, in particular, the existence—or non-existence—of competition in every market for resale of every patented good whose title has been transferred in a sale by the patentee or in an authorized sale by a licensee. Review by this Court is plainly warranted.

I. This Court Should Resolve The Conditional Sale Question.

Beginning with its decision in *Mallinckrodt*, 976 F.2d 700, and culminating in the ruling below, the Federal Circuit has repeatedly held that a patentee may avoid patent exhaustion by transferring title to the patented item with a "clearly communicated, otherwise-lawful restriction as to post-sale use or resale." App., *infra*, 26a. Such a restriction, the court of

appeals holds, may be enforced as a matter of *patent* law. *Ibid.*

The decision below squarely conflicts with this Court's precedent. The United States has twice called on this Court to reverse *Mallinckrodt*, and it reiterated that position below. This issue, which has enormous practical implications, warrants definitive resolution by this Court.

A. The Federal Circuit's holding—that a patentee may avoid exhaustion by imposing post-sale restrictions when transferring title to the patented article—is plainly wrong.

The *en banc* majority's reaffirmation of *Mallinckrodt* is wholly inconsistent with this Court's precedent. *First*, this Court has long recognized that the first sale of a patented article terminates *all* patent rights possessed by the seller; there is no room in the exhaustion doctrine for continuing post-sale restrictions. *Second*, to the extent that this Court's early cases could be viewed as unclear, this Court's holdings in *Univis* and *Quanta*—both of which the court of appeals improperly characterized as mere *dicta*—together preclude a conditional sale exception to patent exhaustion. *Third*, the major rationale relied on by the court of appeals—that, because a patentee may issue a restrictive license, it should also be able to make a restrictive sale—does not withstand scrutiny: it eviscerates the settled distinction in patent law between transfers of title and licenses.

1. Patent exhaustion is a common-law rule that has not been codified by Congress. *Quanta*, 553 U.S. at 621 ("For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent

rights that survive the initial authorized sale of a patented item."). See also App., *infra*, 23a n.5. That doctrine—save for the aberration of *Henry* v. *A.B. Dick*, 224 U.S. 1 (1912), that was quickly overruled—has never permitted a patentee to enforce a putative post-sale restriction on an article *by means of the patent laws*.[2]

That has been true at least since 1853, when this Court held in *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539 (1852), that the sale of a patented article exhausts the patentee's patent rights. The Court explained that when a patented article "passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. If the patentee's rights in that ar-

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[2] When a patentee sells a product, it may choose to place *contract*-based restrictions on that article. See, *e.g.*, *Quanta*, 553 U.S. at 637 n.7; *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) ("Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws"). But Lexmark does not attempt to assert its claims as a matter of contract law. Because a remanufacturer like Impression is not in privity with either Lexmark or Lexmark's customers, Lexmark would have no contract claim against Impression. And Lexmark has apparently chosen not to sue its own customers for reselling spent toner cartridges in violation of the putative restriction.

Likewise, a patentee may choose not to sell articles embodying its patented innovations at all; instead, a party may choose to rent or lease those articles, without a transfer of title. But Lexmark has maintained that, notwithstanding its putative post-sale restrictions, it sells—not leases—the printer cartridges to its customers. See App., *infra*, 11a n.1.

ticle are infringed, "he must seek redress in the courts of the State, according to the [contract] laws of the State, and not * * * under the law of Congress granting the patent." *Id.* at 549-50.

This Court repeatedly affirmed that rule over the following century:

- "By a valid sale and purchase the patented machine becomes the private individual property of the purchaser, and is no longer specially protected by the laws of the United States." *Bloomer* v. *Millinger*, 68 U.S. (1 Wall.) 340, 351 (1863).
- "[T]he sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time. * * * [I]t is open to the use of the purchaser *without further restriction on account of the monopoly of the patentees.*" *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 455-56 (1873) (emphasis added).
- "[W]hen the patentee * * * sells a machine or instrument whose sole value is in its use, he receives the consideration for its use, and *parts with the right to restrict that use.*" *Hobbie* v. *Jennison*, 149 U.S. 355, 361-62 (1893) (emphasis added).
- "[O]ne who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no

longer applied." *Bos. Store of Chi.* v. *Am. Graphophone Co.*, 246 U.S. 8, 25 (1918).

- "[W]here a patentee makes the patented article, and sells it, *he can exercise no future control over what the purchaser may wish to do with the article after his purchase.*" *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 489 (1926) (emphasis added).

As the dissent below explained, "[t]he question of whether the seller has 'authorized' the buyer to use or resell the item is simply irrelevant" in all of these cases. App., *infra*, 106a. The Court has thus "repeatedly held that the authorized sale of a patented article exhausted all of the patentee's patent rights in that article, and freed the article from any restrictions on use or sale based on the patent laws." *Id.* at 109a.

To be sure, there was one short-lived deviation from this otherwise uniform precedent. In *Henry* v. *A.B. Dick Co.*, 224 U.S. 1, 24-25 (1912), the Court permitted enforcement through the patent laws of a post-sale restrictive condition:

> [I]f the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded.

But the Court quickly overruled *A.B. Dick*. In *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917), the Court held that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put

upon it." Thus, the Court explicitly stated that *A.B. Dick* "must be regarded as overruled." *Id.* at 518. See also *Quanta*, 553 U.S. at 626 ("the Court explicitly overruled *A.B. Dick*"). This history is, as the dissent below put it, "compelling authority against the majority's conclusion." App., *infra*, 111a.

2. This Court's more recent decisions in *Univis* and *Quanta* confirm conclusively that a patentee may not enforce a putative post-sale restriction by means of the patent laws.

In *Univis*, the patentee (Univis) licensed to the Lens Company the right to manufacture lens blanks and sell them to other designated licensees. 316 U.S. at 243. Univis issued three different classes of licenses for different categories of purchasers, granting them different use rights in the lens blanks, and setting different prices to be charged for the resale of the lenses ultimately produced. *Id.* at 244-245.

The government brought antitrust claims against Univis and the Lens Company; the companies defended by arguing that their sale of the lens blanks was "excluded" from the ambit of the Sherman Act by their "patent monopoly." *Id.* at 243. This Court rejected that argument, holding that the "sale of [an article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Id.* at 250. It is difficult to imagine a more explicit rejection of a "conditional sale" exception to patent exhaustion.

The court below claimed that *Univis* addresses only restrictions that violate the antitrust laws, asserting the case involved a "vertical price-control restriction." App., *infra*, 54a. But Univis had imposed a

variety of non-price restrictions on the resale of its products. For example, Univis sold lens blanks to "prescription retailer[s]" and stated that the retailer could "sell finished lenses only to consumers." *Univis*, 316 U.S. at 245. In addressing the enforceability under the patent laws of post-sale restrictive conditions, *Univis* therefore was *not* limited to price restrictions.

Indeed, this Court in *Quanta* confirmed that *Univis* "governs" patent exhaustion as a general matter and its reliance on *Univis* to define the general reach of exhaustion is inconsistent with the contention that *Univis*'s rationale is limited to a subset of cases in which a putative restriction would otherwise violate the antitrust laws. *Quanta*, 553 U.S. at 631.

The Federal Circuit majority also characterized as dicta *Univis*'s conclusion that the exhaustion doctrine precludes enforcement under patent law of post-sale conditions—asserting that only "some language in *Univis*" "taken out of context and read as going beyond the restriction involved" weighed against its result. App., *infra*, 54a. The dissent properly criticized the majority for "characteriz[ing] the statement of the exhaustion rule in the Supreme Court cases as mere dictum" given that "the cases impose no such qualification on the rule announced." *Id.* at 118a.

Finally, this Court's decision in *Quanta* does not simply confirm the reach of *Univis*; that ruling independently compels rejection of the lower court's holding that a patentee may use a putative post-sale restriction to circumvent patent exhaustion. The *Quanta* Court expansively defined the scope of the exhaustion doctrine: "[t]he authorized sale of an article that

substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." 553 U.S. at 638. And the Court described *Motion Picture Patents* as having "reiterated the rule that 'the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.'" *Quanta*, 553 U.S. at 626 (quoting *Motion Picture Patents*, 243 U.S. at 516).

As the dissent below recognized, *Quanta* "reiterated the broad patent exhaustion rule and left no room for a resurrection of *A.B. Dick*['s]" conditional sale doctrine. See App., *infra*, 113a-115a.

3. The majority below rested its holding in large part on this Court's cases holding that a patentee may place restrictions on the scope of a *license* to manufacture articles embodying its patents—and that a sale by the licensee in violation of those restrictions does not exhaust the patent rights. See, *e.g.*, App., *infra*, 28a, 31a, 34a, 41a-55a. Contrary to the majority's analysis, a restriction in a license stands on vastly different ground than a putative post-sale restriction.

The patent exhaustion doctrine itself explains why a license is different than a sale. Under the first *sale* doctrine, "'the *initial authorized sale* of a patented item terminates all patent rights to that item.'" *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1765 (2013) (quoting *Quanta*, 553 U.S. at 625) (emphasis added). The required authorization, of course, is authorization *by the patentee*. When a patentee manufactures its own products, its sale of those articles will, in all cases, qualify as an "initial authorized

sale." If a patentee does not wish to "authorize" the sale, it can simply decline to sell the articles.

In the context of a patentee-licensee arrangement, the patentee authorizes the licensee to manufacture and sell articles that embody the patented technology. The "initial authorized sale" occurs when the licensee first sells the article in question. For that sale to qualify as an "authorized" one, the licensee must comply with the terms of the license.

The Court's decisions in *General Talking Pictures Corp.* v. *Western Electric Company*, 304 U.S. 175 (1938), *opinion on rehearing* 305 U.S. 124 (1939), are instructive. There, a patentee granted one company a license to produce patented amplifiers for commercial use, and it granted the defendant a license to manufacture amplifiers for home use. The defendant nonetheless made and sold amplifiers for commercial use. *General Talking Pictures*, 305 U.S. at 125-126. The Court found that the restriction in the license was valid, and that the amplifiers sold by the defendant for commercial use were therefore infringing products subject to the patent laws. *Id.* at 127.

This result accords with common sense: if the sale is in compliance with the license terms, then an "initial *authorized* sale" occurs, and all patent rights to that article held by the patentee are exhausted. But, if the sale is not in compliance, then no "initial *authorized* sale" occurs.

That principle has important real-world consequences. It means that a downstream purchaser need ascertain only that the patentee made the initial sale of the article or that the licensed manufacturer making the initial sale had full authority to sell to the initial purchaser. If one of those circumstances

is present, the downstream purchaser need not attempt to discern any other conditions that the patentee attempted to impose. Under the majority's approach, "[p]ost-sale restraints would 'cast a cloud of uncertainty over every sale.'" App., *infra*, 117a (dissent).

At bottom, the decision by the court of appeals hinges on the assertion that a patentee can authorize a sale (either via selling the article himself, or by licensing another to sell the good), but nonetheless restrict the buyer from later reselling the duly purchased article. App., *infra*, 40a-41a. That reasoning would render the patent exhaustion doctrine meaningless, because the patentee could avoid the doctrine entirely by specifying a restriction in connection with the first sale. Instead, as this Court has long held, the first authorized sale necessarily exhausts all patent rights, including any post-sale restriction the patentee may wish to impose.

B. The court of appeals rejected the longstanding view of the United States that *Mallinckrodt* is inconsistent with this Court's precedents.

For nearly a decade, the United States has recognized that *Mallinckrodt* "reflects a fundamental misunderstanding of the role and scope of the patent-exhaustion doctrine." U.S. Br. at 23, *Quanta*, 553 U.S. 617 (No. 06-937), 2007 WL 3353102. The government's brief in *Quanta* stated that the Federal Circuit's conditional sale doctrine "cannot be reconciled" with this Court's decision concerning the first-sale doctrine. *Ibid.*

Later, in its *Bowman* certiorari-stage *amicus* brief, the United States explained that *Mallinckrodt*

"was materially different from, and inconsistent with" this Court's exhaustion holdings. U.S. Cert. Br. 8, *Bowman*, 133 S. Ct. 1761 (No. 11-796), 2012 WL 3643767. Following the grant of certiorari, the United States underscored that "the Federal Circuit's 'conditional sale' doctrine is erroneous and inconsistent with *Quanta*." U.S. Br. at 29, *Bowman*, 133 S. Ct. 1761 (No. 11-796), 2013 WL 137188. *Mallinckrodt*, the United States said, "is irreconcilable with this Court's precedents," which have "repeatedly applied the patent-exhaustion doctrine in concluding that explicit restrictions imposed on authorized purchasers were ineffective as a matter of patent law." *Id.* at 30-31.

Finally, the United States appeared as *amicus* before the court below and reaffirmed its longstanding position, urging the *en banc* court to "overrule *Mallinckrodt* and hold that post-sale restrictions are not enforceable in patent law." U.S. Br. at 4, *Lexmark Int'l, Inc.* v. *Impression Prods., Inc.*, 2016 WL 559042 (Fed. Cir. 2015) (No. 14-1617), 2015 WL 4112927.

The United States stated that "*Mallinckrodt* was wrong when it was decided, and the gap between *Mallinckrodt* and the Supreme Court's precedents has only become more evident in the ensuing years." *Id.* at 8. It urged the court of appeals to "overrule *Mallinckrodt* and hold that the first authorized sale in the United States exhausts all patent rights in the article sold, regardless of the patentee's attempt to impose post-sale restrictions by contract." *Id.* at 12. For this reason, the government contended, "Lexmark's single-use restrictions on its cartridge sales cannot be enforced through patent law." *Ibid.*

The government's *amicus* brief in *Quanta* explained the significant adverse practical consequences of the *Mallinckrodt* rule:

> Absent patent exhaustion, the lawful purchase of an article useful only for practicing the patent provides no value to the purchaser until completion of further negotiations and a further payment for the right to use or to resell. Moreover, the need for further negotiations and payments may depend on a court's after-the-fact determination whether the seller adequately expressed a limitation on the rights conveyed. * * * The potential for "inconvenience and annoyance," as well as inefficiency, is palpable.
>
> That potential is not limited to the first purchaser. If the patentee can impose use and resale restrictions on the first purchaser in an authorized sale, there is no reason why it cannot also do so as to all subsequent purchasers. * * * The inconvenience, annoyance, and inefficiency can thus be passed down the chain of distribution, with no obvious stopping point short of the end of the article's useful life.
>
> That ability to employ the patent law to extract royalties at multiple downstream points in the channels of commerce, even after an authorized sale, can have consequences beyond the evident transactional inefficiencies. * * * The result would be a transfer of wealth from downstream firms and ultimate consumers to the patentee. Nothing suggests that this transfer would further "the Progress of Science and useful Arts," U.S.

> Const. Art. I, § 8, Cl. 8, to the benefit of the public.

Br. at 27-28. These consequences, and the stark inconsistency between *Mallinckrodt* and this Court's decisions, confirms the need for this Court's intervention.

C. The question is extremely important.

This Court has frequently observed that "[t]he promotion of the progress of science and the useful arts is the 'main object'" of patent law; the "reward of inventors is secondary and merely a means to that end." *E.g.*, *United States* v. *Masonite Corp.*, 316 U.S. 265, 278 (1942). Patent law must therefore strike a balance between the public interest, on the one hand, and providing proper incentives to inventors on the other.

A key mechanism for establishing this balance is the "single-reward principle": that "the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent." *Keeler* v. *Standard Folding-Bed Co.*, 157 U.S. 659, 666 (1895). Once an article has been sold, the patentee has received its patent-law "reward" for that article and any subsequent conditions on the article's resale or use can only be enforced through contract law. *E.g.*, *Quanta*, 553 U.S. at 637 n.7 ("[T]he authorized nature of the sale to [a purchaser] does not necessarily limit [the patentee's] other contract rights.").

Allowing patentees to enforce sale and use restrictions through patent law, in addition to contract law, would dramatically expand patentees' ability to impose such restrictions. Patent rights, unlike con-

tract rights, can be asserted against downstream purchasers not in privity with the patentee or its authorized licensee. And patent law provides for enhanced damages (see 35 U.S.C. § 284) and injunctive relief (*id.* § 283) that generally are unavailable under contract law. The severity and far-reaching scope of the patent infringement remedy would allow patentees to exert considerable control over the secondary market for their products and the uses to which those products are put.

The anticompetitive implications of the holding below are therefore dramatic: it permits *any* patentee to foreclose the secondary market for *any* patented good. The inevitable consequence would be to enable patentees to extract unjustified rents from downstream users.

That would distort the function of patent law, expanding its restrictions far beyond those in the patent law to encompass any restriction devised by the patentee. But "[s]ince patents are privileges restrictive of a free economy, the rights which Congress has attached to them must be strictly construed so as not to derogate from the general law beyond the necessary requirements of the patent statute." *Masonite Corp.*, 316 U.S. at 280.

Our intellectual property laws were never intended to authorize that result. Indeed, since at least the seventeenth century, the common law has strongly disfavored restraints on the alienation of chattels because they interfere with the functioning of secondary markets. See 1 Edward Coke, *Institutes of the Laws of England* § 360, at 223 (5th ed. 1656). *Kirtsaeng* expressly recognized this principle in the context of intellectual property, explaining that it is "importan[t] [to] leav[e] buyers of goods free to com-

pete with each other when reselling or otherwise disposing of those goods" because "competition, including freedom to resell, can work to the advantage of the consumer." *Kirtsaeng*, 133 S. Ct. at 1363 (citing *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 886 (2007)).

By enabling a patentee to eliminate competition in the secondary market, *Mallinckrodt*'s "conditional sale" doctrine reduces consumer welfare and causes an unjustified "wealth transfer from customers to the patentee." Richard H. Stern, *Post-Sale Patent Restrictions After* Mallinckrodt*—An Idea in Search of Definition*, 5 Alb. L.J. Sci. & Tech. 1, 11 (1994).

This Court should intervene to abrogate this harmful rule. As the United States has put it, "no one benefits from the uncertainty caused by dissonance between Supreme Court patent precedents and more recent holdings of the Federal Circuit." U.S. Br. at 18-19, *Quanta*, 553 U.S. 617 (No. 06-937), 2007 WL 2425785. The Court should "provide much needed guidance" (*id.* at 19)—and this is the ideal case in which to do so.

II. This Court Should Review The International Exhaustion Question.

The question whether a sale outside the United States, authorized by the U.S. patentee, exhausts U.S. patent rights also warrants review. The Federal Circuit's holding below—that a U.S. patentee's sales abroad do not exhaust its U.S. patent rights—cannot be reconciled with this Court's decisions in *Kirtsaeng* and *Quanta*.

A. The Federal Circuit's holding is contrary to this Court's precedents.

The ruling below is wrong for three reasons: it is foreclosed by *Kirtsaeng*, it is inconsistent with over a century of common-law rulings, and it departs from the clear implications of *Quanta*.

1. This Court's recent decision in *Kirtsaeng* holding that sales outside the U.S. exhaust copyright rights resolves this question.

In the patent context, Congress has not enacted a statute addressing the scope of exhaustion. See App., *infra*, 23a n.5 ("Congress has not defined the underlying patent-exhaustion rule."). In the absence of action by Congress, the issue turns on the common law rule, and *Kirtsaeng* decisively answered that question.

The copyright law addressed in *Kirtsaeng* contained a statutory provision addressing exhaustion. The Court held that one "relevant canon of statutory interpretation" was that "[w]hen a statute covers an issue previously governed by the common law," there is a presumption that "Congress intended to retain the substance of the common law." *Id.* at 1363.

The Court therefore proceeded to identify the relevant common law rule. In undertaking this review, the Court remarked that "[t]he 'first sale' doctrine is a common-law doctrine with an impeccable historic pedigree." *Ibid.* The Court relied on Lord Coke's explanation of "the common law's refusal to permit restraints on the alienation of chattels" (*ibid.*):

> "[If] a man be possessed of ... a horse, or of any other chattell ... and give or sell his

> whole interest ... therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest ... is out of him, so as he hath no possibilit[y] of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man: and it is within the reason of our Author that it should ouster him of all power given to him." 1 E. Coke, Institutes of the Laws of England § 360, p. 223 (1628).

Ibid. It concluded that "Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods." *Ibid.* Likewise, "American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer." *Ibid.*

The Court concluded that the common law doctrine had no territorial restrictions: "[t]he common-law doctrine makes no geographical distinctions." *Ibid.*

Importantly, the Court conducted its analysis of the common law with respect to property ***generally***. *Ibid.* Its conclusion was not limited to copyright law. Only *after* indentifying the common law principle applicable to *all* property rights did the Court then apply that principle to the copyright context—to determine whether the relevant statutory provision (Section 109(a) of the Copyright Act) limited the application of the common law rule. *Kirtsaeng*, 133 S. Ct. at 1363-1364.

There can be no doubt that the *Kirtsaeng* Court's common law determination applies equally to patent

law. Indeed, the Court has previously relied on Lord Coke's analysis of the common law prohibition of restraints on alienation to guide the contours of patent exhaustion. See *Straus* v. *Victor Talking Machine Co.*, 243 U.S. 490, 500-01 (1917) (noting that a patentee's attempt "to place restraints upon [a patented product's] further alienation * * * have been hateful to the law from Lord Coke's day to ours").

And the exhaustion question in the patent context is more straightforward than it was with respect to copyright: there is *no* statutory language to interpret. The sole question, therefore, is what the common law requires—because "[w]hen a statute covers an issue previously governed by the common law," there is a presumption that "Congress intended to retain the substance of the common law." *Kirtsaeng*, 133 S. Ct. at 1363. *Kirtsaeng*'s common law analysis is therefore determinative.

The majority below distinguished *Kirtsaeng* as a decision interpreting Section 109(a) of the Copyright Act, a provision that "has no counterpart in the Patent Act." App., *infra*, 70a. In the majority's view, Section 109(a)'s text authorizes a first-sale doctrine in the copyright context that is broader than the rule applicable in the patent context. App., *infra*, 70a.

But that reading of *Kirtsaeng* is exactly backwards. The Court there held that Section 109(a) *constrained* the first-sale doctrine that existed at common law, because it requires not only an authorized sale of a copy of a work but also that that copy have been "lawfully made under this title"—a phrase the Court was required to interpret in *Kirtsaeng*. 17 U.S.C. § 109(a). The Patent Act places no such restriction on the common law's first-sale doctrine. The Court's common law analysis therefore controls,

making the doctrine at least as expansive in the patent context as it is in copyright law—not *less* expansive, as the majority suggested below.[3]

2. This understanding of the common law is reflected, moreover, in a consistent line of patent cases indicating that a sale outside the United States authorized by the U.S. patentee has long been understood to exhaust U.S. patent rights.

The best-known articulation of this rule was in *Holiday* v. *Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885), which addressed "the question whether the owner of a patent in the United States for an invention, who has sold the patented article in England without restriction or conditions, can treat as an infringer one who has purchased the article in England of a vendee of the patentee, and can restrain him from using or selling the article here." The court held that the patentee did not retain any patent rights in the article after its foreign sale; rather, the purchaser "acquire[d] the right of unrestricted ownership in the article * * *, including, as an inseparable inci-

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[3] *Kirtsaeng* also makes inapposite the court of appeal's focus on the territorial nature of patent rights. See App., *infra*, 84a-86a. To be sure, a U.S. patentee may not assert that a foreign party infringed a U.S. patent abroad; the patentee must instead obtain a patent in each country in which it will seek to enforce patent rights. But that is also true of copyright law. Indeed, the *Kirtsaeng* dissent pointed out that "[t]he Copyright Act, it has been observed time and again, does not apply extraterritorially." *Kirtsaeng*, 133 S. Ct. at 1376 (Ginsburg, J., dissenting). But the majority held that U.S. copyrights in copies of works sold outside the United States are exhausted by a sale outside the U.S. that is authorized by the U.S. copyright holder. There is no basis for a different result with respect to U.S. patent rights. As the dissent below put it, "the doctrine of extraterritoriality" is "inapposite." App., *infra*, 126a.

dent, the right to use and enjoy it, and to transfer his title to others." 24 F. at 186.[4] *Holiday*'s rule was broadly adopted.[5]

The majority below tried to distinguish *Holiday* on the ground that "its emphasis on the absence or presence of patentee-conveyed restrictions on post-purchase use[] is taken entirely from domestic exhaustion law." App., *infra*, 90a. But that is precisely the point. The same exhaustion rule governing authorized domestic sales *also* applies to authorized sales abroad.

The court below also held (App., *infra*, 90a-91a) that *Holiday* was superseded by this Court's later decision in *Boesch* v. *Graff*, 133 U.S. 697 (1890). Indeed, the court below (App., *infra*, 80a-83a), like the *Jazz Photo* court, 264 F.3d at 1105, relied on *Boesch* in concluding a foreign sale does not exhaust a U.S.

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[4] *Holiday* derived, in substantial part, from English common law. See 24 F. at 186. In *Betts* v. *Willmott*, [1871] 6 L.R. 239, 245 (Ch. App.) (Eng.), the Court of Appeal in Chancery held that a holder of both a French and English patent, who manufactured and sold an item in France, granted the purchaser of the good in France an implicit license to use and sell the item in England; "inasmuch as [the patentee] has the right of vending the goods in *France* or *Belgium* or *England*, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them wherever the purchaser pleases."

[5] See, *e.g.*, *Kabushiki Kaisha Hattori Seiko* v. *Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988); *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 939 (D.N.J. 1983); *Becton, Dickinson & Co.* v. *Eisele & Co.*, 86 F.2d 267, 268-70 (6th Cir. 1936); *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 78 (2d Cir. 1920); *Dickerson* v. *Tinling*, 84 F. 192, 194-95 (8th Cir. 1897); *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir. 1893).

patentee's rights. But *Boesch* held nothing of the sort.

The plaintiffs in *Boesch*, who held the U.S. patent rights to a lamp burner, brought an infringement action against the importers into the United States of lamp burners practicing that patent. *Boesch*, 133 U.S. at 698-99. The defendants had purchased the burners from a third party in Germany who was permitted to make and sell them under German law because he had been doing so prior to the German patent application for the same technology. *Id.* at 701-02.

Thus, as this Court explained, the "exact question presented [was] whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, *without the license or consent of the owners of the United States patent*." *Id.* at 702 (emphasis added). The Court concluded that because the third party had not received this "license or consent" from the patentee, "purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights [of] patentees under [the] United States patent." *Id.* at 703.

Boesch thus addresses the circumstance in which a patented article is sold abroad *without authorization by the U.S. patentee*. It did not address situations, such as this case, in which a foreign sale is authorized by the U.S. patentee. See, *e.g.*, App., *infra*, 126a (dissent) ("*Boesch* does not apply here because the foreign sales were made by Lexmark—the U.S. patent rights holder—itself."); *Curtiss Aeroplane*, 266 F. at 77 (explaining that *Boesch* is limited to circumstances in which "there has been no participation

whatever by the owner of the patent, either as a party or as a privy, in the putting out of the article which is alleged to infringe").

When the foreign sale is authorized by the U.S. patentee, the common-law rule announced in *Holiday*, rather than *Boesch*, controls, and the patentee's U.S. patent rights are exhausted. See 5 Donald S. Chisum, *Chisum on Patents* § 16.05[3][a][ii] (1997) (noting that *Boesch* "left open" the question whether "an importer infringe[s] by domestic sale when he bought the product in a foreign country from the person who owns the United States patent," and that *Holiday* answers that question).

3. Finally, the court of appeals conclusion that patent exhaustion occurs only if a patentee receives an award for a sale in the United States (App., *infra*, 75a-81a) is plainly inconsistent with *Quanta*.

To begin with, nothing in the text of 35 U.S.C. § 271(a) supports the lower court's conclusion. That statute addresses the circumstances in which a patentee may sue for infringement, and generally requires that the infringement occurred "within the United States." *Ibid.* That says nothing about the reach of the exhaustion doctrine. Cf. App., *infra*, 75a-76a.

Quanta, however, does address that question. In that case, LGE, the owner of certain method patents, licensed them to Intel, which produced microprocessors and chips that practiced the patents when incorporated into a computer system. 553 U.S. at 623. Intel sold the articles to Quanta, which integrated them into its computers. *Id.* at 624. When LGE sued Quanta for patent infringement, Quanta asserted exhaustion as a defense, and this Court was asked to

address (among other issues) whether Intel's sale of its products substantially embodied the method patents and therefore exhausted LGE's patent rights. *Id.* at 621.

On that issue, this Court held that patent exhaustion depends on whether "the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing." *Id.* at 632 n.6 (quoting *Univis*, 316 U.S. at 249). And—addressing the point that some of the products were sold outside the United States—the Court explained that even if sold "*outside the country* * * *, the Intel Products would still be *practicing* the patent, even if not infringing it." *Ibid.* (first emphasis added). That reasoning demonstrates that foreign sales of patented articles can exhaust U.S. patent rights, because it shows that an article can *practice* a U.S. patent outside the United States—which is the critical question for exhaustion purposes.[6]

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[6] The court of appeals does not confront this essential point. It recognizes that this language means that a good sold abroad can "embody" a U.S. patented innovation. App., *infra*, 66a n.14. But, as *Quanta* and *Univis* hold, the embodiment of the invention in an item subjected to an authorized sale triggers exhaustion. The first sale need not *infringe* a patent right. Geography is therefore irrelevant.

The court of appeals also pointed to various trade agreements in support of its rule. See App., *infra*, 86a-88a. But some of the agreements, TRIPS and the TPP, say nothing at all about exhaustion. *Id.* at 86a-87a. The three country-specific agreements (*id.* at 87a-88a) *undermine* the court of appeals decision, because they demonstrate that Congress thought it necessary to modify the law in order to avoid international exhaustion.

B. The decision below rejected the argument advanced by the United States.

The United States asserted that "by default, foreign sales authorized by the U.S. patentee exhaust domestic patent rights, but a U.S. patentee may expressly reserve his U.S. patent rights in such sales." See U.S. Br., *Lexmark*, *supra*, at 26. The dissenters below would have adopted that rule. App., *infra*, 125a-135a.

To be sure, we disagree with the position advanced by the United States—for two reasons. First, it is inconsistent with the *Kirtsaeng* Court's analysis of the governing common law rule. Second, it is inconsistent with the basic principle that a patentee cannot impose *any* patent-based post-sale restriction following an "initial authorized sale" (see pages 10-18, *supra*). Restrictions that a patentee attempts to place on the sale of goods may be enforceable in contract, but they are not enforceable through patent law. Indeed, the United States does not attempt to reconcile its position with respect to this question with its view that the patent exhaustion doctrine "leaves no room for post-sale restrictions enforceable in infringement actions." U.S. Br., *Lexmark*, *supra*, at 5.

But the majority's rejection of the United States' approach is further evidence of the importance of the issue, and the need for this Court's intervention.

C. The question is important.

Jazz Photo's domestic-only exhaustion rule creates substantial market inefficiencies, frustrates innovation, and creates a distinction between copyright and patent law that will produce substantial practical problems.

The modern supply chain for consumer goods is astonishingly complex: many finished consumer products incorporate numerous separate patented components, which are manufactured in a number of different countries. A recent report identified 785 different suppliers, in 31 countries, for various components of the iPhone 6. Ian Barker, *The Global Supply Chain Behind the iPhone 6*, https://perma.cc/NT2H-VV2Q. Even "a given semiconductor product * * * will often embody hundreds if not thousands of 'potentially patentable' technologies," and that is just one part of a consumer device. Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 Rand J. Econ., No. 1, 101, 110 (2001).

A domestic-only exhaustion rule adds substantial complexity to this system: it requires a manufacturer who wishes to import an intermediate or finished product into the United States to trace the patent rights of *every* component in its product and license each component for importation—over and above purchasing the components themselves.

It also allows a patentee to wait until its components have been incorporated into end products that have been imported into the United States before demanding royalties. At that point in time, the patentee has leverage to extract value beyond what the market would bear if the patentee had to price its full patent rights into its initial sale of the component. The inefficiencies and rent-seeking that result from the *Jazz Photo* rule are harmful to consumers and to the global economy.

The *Jazz Photo* rule also makes it harder for innovators to develop new technologies. New products

often are created by combining existing components in new ways—but a developer cannot experiment with components if there is no meaningful way to understand whether the patent rights in the components have been exhausted. Thus, as a recent study explained, "deregulation of parallel imports"—*i.e.*, loosening patent-based restrictions on secondary-market goods—"generates both an increase in consumer surplus in the innovative country and an *increase* in the world pace of innovation." Gene M. Grossman & Edwin L.C. Lai, *Parallel Imports and Price Controls*, 39 Rand J. Econ. 378, 380 (2008).

Finally, *Jazz Photo* creates a glaring disparity between copyright law and patent law. Under *Kirtsaeng*, a foreign sale of a copy of a work that is authorized by the U.S. rights owner exhausts the copyright in the copy, see 133 S. Ct. at 1355-1356, but under *Jazz Photo* a foreign sale of a patented article does not exhaust the patentee's U.S. rights. As *Kirtsaeng* observed, however, copyrights are often found in products that are protected by patents as well, including "automobiles, microwaves, calculators, mobile phones, tablets, and personal computers." *Id.* at 1365. Differing exhaustion rules for differing intellectual property rights will lead to the bizarre results in which a first sale exhausts a copyright embodied in an article, but not a patent embodied in that same article. That would only increase the gamesmanship available to entities seeking to prevent secondary market competition. By granting review, therefore, this Court can address whether it is appropriate to harmonize the application of the exhaustion doctrine.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

Counsel for Petitioner

MARCH 2016

APPENDICES

APPENDIX A

United States Court of Appeals for the Federal Circuit

LEXMARK INTERNATIONAL, INC.,
Plaintiff-Cross-Appellant
v.
IMPRESSION PRODUCTS, INC.,
Defendant-Appellant
QUALITY CARTRIDGES, INC., JOHN DOES, 1-20, BLUE TRADING LLC, EXPRINT INTENATIONAL, INC., LD PRODUCTS, INC., PRINTRONIC CORPORATION, TESEN DEVELOPMENT (HONG KONG) CO. LTD., BENIGNO ADEVA AND HIS COMPANIES,
Defendants

2014-1617, 2014-1619

Appeals from the United States District Court for the Southern District of Ohio in No. 1:10-cv-00564-MRB, Judge Michael R. Barrett.

Decided: February 12, 2016

CONSTANTINE L. TRELA, JR., Sidley Austin LLP, Chicago, IL, argued for plaintiff-cross-appellant. Also represented by ROBERT N. HOCHMAN; BENJAMIN BEATON, JOSHUA JOHN FOUGERE, Washington, DC; TIMOTHY COLIN MEECE, BRYAN MEDLOCK, JR., AUDRA C. EIDEM HEINZE, JASON S. SHULL, Banner & Witcoff,

Ltd., Chicago, IL; STEVEN B. LOY, Stoll, Keenon & Park, LLP, Lexington, KY.

EDWARD F. O'CONNOR, Avyno Law, P.C., Encino, CA, argued for defendant-appellant. Also represented by JENNIFER HERBST HAMILTON.

ANDREW J. PINCUS, Mayer Brown LLP, Washington, DC, argued for amici curiae LG Electronics, Inc., Dell Inc., Google Inc., Intel Corporation, L Brands Inc., Newegg Inc., Ninestar Image Tech Limited, QVC, Inc., Samsung Electronics Co., Ltd., SAS Institute, Inc., Xilinx, Inc. Also represented by JAMIE B. BEABER, KFIR LEVY, PAUL WHITFIELD HUGHES; JAMES SUH, LG Electronics Inc., Seoul, Korea; MATTHEW R. HULSE, Intel Corporation, Santa Clara, CA.

MELISSA N. PATTERSON, Appellate Staff, Civil Division, United States Department of Justice, Washington, DC, argued for amicus curiae United States. Also represented by BENJAMIN C. MIZER, MARK R. FREEMAN.

BARBARA A. FIACCO, Foley Hoag LLP, Boston, MA, argued for amici curiae Biotechnology Industry Organization, CropLife International. Also represented by SARAH S. BURG.

MARGRETH BARRETT, University of California-Hastings College of Law, The Sea Ranch, CA, as amicus curiae pro se.

FREDERICK M. ABBOTT, Florida State University College of Law, Tallahassee, FL, as amicus curiae pro se.

KRISTIN LEIGH YOHANNAN MOORE, Cadwalader, Wickersham & Taft LLP, Washington, DC, for amicus curiae American Intellectual Property Law Association. Also represented by TIHUA HUANG; LISA K.

JORGENSON, American Intellectual Property Law Association, Arlington, VA.

MEENAKSHI KALA SARVAIYA, SoCal IP Law Group LLP, Westlake Village, CA, for amicus curiae Conejo Valley Bar Association. Also represented by STEVEN C. SEREBOFF.

NOAH LEIBOWITZ, Simpson Thacher & Bartlett, LLP, New York, NY, for amicus curiae New York Intellectual Property Law Association. Also represented by WALTER E. HANLEY, JR., Kenyon & Kenyon LLP, New York, NY; DAVID F. RYAN, Croton-On-Hudson, NY.

CHARLES DUAN, Public Knowledge, Washington, DC, for amici curiae Public Knowledge, Electronic Frontier Foundation, Open Source Hardware Association, Digital Right to Repair Coalition, Public Citizen, Inc. Also represented by MOHAMMED RAZA PANJWANI, SHERWIN SIY; VERA RANIERI, Electronic Frontier Foundation, San Francisco, CA.

PETER JAMES WIED, Lee Tran Liang & Wang LLP, Los Angeles, CA, for amici curiae Quanta Computer, Inc., Acer, Inc. Also represented by VINCENT K. YIP.

JOHN R. ALISON III, Winston & Strawn LLP, Washington, DC, for amici curiae HTC Corp., HTC America, Inc. Also represented by OWAIS AHMED SIDDIQUI, San Diego, CA; GINO CHENG, Los Angeles, CA.

CHARLES LIFLAND, O'Melveny & Myers LLP, Los Angeles, CA, for amicus curiae SK Hynix Inc. Also represented by SUSAN ROEDER, SUSAN VAN KEULEN, Menlo Park, CA.

JAMES R. KLAIBER, Pryor Cashman LLP, New York, NY, for amicus curiae The Association of the

Bar of the City of New York. Also represented by TIMOTHY P. HEATON, Troutman Sanders LLP, New York, NY; AARON LIGOURY JOSEPH PEREIRA, Buchanan Ingersoll & Rooney PC, New York, NY.

STEVEN A. HIRSCH, Keker & Van Nest, LLP, San Francisco, CA, for amicus curiae SanDisk Corporation. Also represented by CHRISTA M. ANDERSON, ROBERT A. VAN NEST, LEO L. LAM.

ROBERT T. HASLAM, Covington & Burling LLP, Redwood Shores, CA, for amicus curiae Texas Instruments, Inc. Also represented by NATHAN SHAFFER; RANGANATH SUDARSHAN, Washington, DC.

MATTHEW J. MOORE, Latham & Watkins LLP, Washington, DC, for amici curiae Costco Wholesale Corp., Retail Litigation Center, Inc. Also represented by JAMES SCOTT BALLENGER, MELISSA ARBUS SHERRY.

PHILLIP R. MALONE, Stanford Law School, Juelsgaard Intellectual Property and Innovation Clinic, Mills Legal Clinic, Stanford, CA, for amici curiae American Antitrust Institute, Jeremy W. Bock, Esq., Irene Calboli, Michael A. Carrier, Andrew Chin, Samuel Ernst, Shubha Ghosh, Ariel Katz, Mark A. Lemley, Yvette Joy Liebesman, Brian J. Love, Mark P. McKenna, Michael J. Meurer, Tyler T. Ochoa, Mark R. Patterson, Esq., Aaron Perzanowski, John A. Rothchild, Pamela Samuelson, Sharon K. Sandeen, Kurt M. Saunders, Christopher B. Seaman, Katherine J. Strandburg, Jennifer M. Urban, Esq., Ryan Vacca, Sarah R. Wasserman-Rajec. Also represented by JEFFREY THEODORE PEARLMAN.

ROBERT ANTHONY SURRETTE, McAndrews, Held & Malloy, Ltd., Chicago, IL, for amicus curiae Association of Medical Device Reprocessors. Also represented by CHRISTOPHER M. SCHARFF.

WILLIAM DOUGLAS KARI, Arbitech, LLC, Irvine, CA, for amici curiae Association of Service and Computer Dealers International, Inc., Owners' Rights Initiative.

MATTHEW A. LEVY, Computer & Communications Industry Association, Washington, DC, for amicus curiae Computer & Communications Industry Association.

DANIEL STRINGFIELD, Steptoe & Johnson, LLP, Chicago, IL, for amicus curiae Licensing Executive Society (U.S.A. and Canada), Inc. Also represented by KATHERINE H. JOHNSON; BRIAN P. O'SHAUGHNESSY, Ratner Prestia, Washington, DC.

MERRITT BLAKESLEE, The Blakeslee Law Firm, Washington, DC, for amicus curiae Recycling Times Media Corporation.

MARK SCHONFELD, Burns & Levinson, LLP, Boston, MA, for amicus curiae Imaging Supplies Coalition. Also represented by SARA BECCIA.

GARRARD R. BEENEY, Sullivan & Cromwell LLP, New York, NY, for amicus curiae Dolby Laboratories, Inc. Also represented by ADAM R. BREBNER.

ROBERT P. TAYLOR, Arnold & Porter, LLP, San Francisco, CA, for amicus curiae Intellectual Property Owners Association. Also represented by HERBERT CLARE WAMSLEY, JR., Intellectual Property Owners Association, Washington, DC; KEVIN H. RHODES, 3M Innovative Properties Company, St. Paul, MN; PHILIP STATON JOHNSON, Johnson & Johnson, New Brunswick, NJ.

JOHN D. HAYNES, Alston & Bird LLP, Atlanta, GA, for amici curiae Nokia Technologies OY, Nokia USA Inc.

KATHI A. COVER, iBiquity Digital Corporation, Columbia, MD, for amicus curiae iBiquity Digital Corporation.

JOSEPH S. CIANFRANI, Knobbe, Martens, Olson & Bear, LLP, Irvine, CA, for amicus curiae Medical Device Manufacturers Association. Also represented by KENT N. SHUM.

ROGER BROOKS, Cravath Swaine & Moore LLP, New York, NY, for amicus curiae Qualcomm Incorporated. Also represented by DAVID J. KAPPOS.

JOHN NILSSON, Arnold & Porter LLP, Washington, DC, for amicus curiae Pharmaceutical Research and Manufacturers of America. Also represented by KRISTAN LYNN LANSBERY, SAMUEL DREZDZON; WILLOW WHITE NOONAN, San Francisco, CA.

THEODORE LAWRENCE FIELD, South Texas College of Law, Houston, TX, as amicus curiae pro se.

DAVID S. STEUER, Wilson, Sonsini, Goodrich & Rosati, PC, Palo Alto, CA, for amicus curiae InterDigital, Inc. Also represented by MICHAEL BRETT LEVIN, MAURA L. REES.

SETH DAVID GREENSTEIN, Constantine Cannon LLP, Washington, DC, for amici curiae International Imaging Technology Council, Auto Care Association, Automotive Parts Remanufacturers Association.

Before PROST, *Chief Judge*, NEWMAN, LOURIE, DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO, CHEN, HUGHES, and STOLL, *Circuit Judges*.

Opinion for the court filed by *Circuit Judge* TARANTO, in which *Chief Judge* PROST and *Circuit Judges* NEWMAN, LOURIE, MOORE, O'MALLEY, REYNA, WALLACH, CHEN, and STOLL join.

Dissenting opinion filed by *Circuit Judge* DYK, in which *Circuit Judge* HUGHES joins.

TARANTO, *Circuit Judge*.

Congress has declared: "Except as otherwise provided in [the Patent Act], whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a); *see id.* § 154(a) (granting patentee "right to exclude others" from itemized actions). The doctrine of patent exhaustion (or "first sale" doctrine) addresses the circumstances in which a sale of a patented article (or an article sufficiently embodying a patent), when the sale is made or authorized by the patentee, confers on the buyer the "authority" to engage in acts involving the article, such as resale, that are infringing acts in the absence of such authority. There is nothing "otherwise provided" on the issue in the Patent Act. In that respect, the Patent Act differs from the Copyright Act, whose infringement, importation, and exclusive-rights provisions, 17 U.S.C. §§ 501, 602, 106, are all subject to a separate, overriding statutory provision that grants owners of certain copyrighted articles a right to sell those articles "without the authority" of the copyright holder, *id.* § 109(a).

In this case, all of the initial sales at issue were made by the U.S. patentee, rather than by a licensee having authorization from the patentee. Some of the initial sales were made domestically, some abroad. All of the domestic sales, and an unknown portion of the foreign sales, were accompanied by clearly communicated restrictions on the buyer's reuse and resale.

We decided to hear this case en banc to consider whether two decisions of this court concerning the uncodified doctrine of patent exhaustion—one decision from 1992, the other from 2001—remain sound in light of later decisions of the Supreme Court. Today we reaffirm the principles of our earlier decisions.

First, we adhere to the holding of *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser, does not by that sale give the buyer, or downstream buyers, the resale/reuse authority that has been expressly denied. Such resale or reuse, when contrary to the known, lawful limits on the authority conferred at the time of the original sale, remains unauthorized and therefore remains infringing conduct under the terms of § 271. Under Supreme Court precedent, a patentee may preserve its § 271 rights through such restrictions when licensing others to make and sell patented articles; *Mallinckrodt* held that there is no sound legal basis for denying the same ability to the patentee that makes and sells the articles itself. We find *Mallinckrodt*'s principle to remain sound after the Supreme Court's decision in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617 (2008), in which the Court did not have before it or address a patentee sale at all, let alone one made subject to a restriction, but a sale made by a separate manufacturer under a patentee-granted license conferring unrestricted authority to sell.

Second, we adhere to the holding of *Jazz Photo Corp.* v. *International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), that a U.S. patentee, merely by selling or authorizing the sale of a U.S.-patented article

abroad, does not authorize the buyer to import the article and sell and use it in the United States, which are infringing acts in the absence of patentee-conferred authority. *Jazz Photo*'s no-exhaustion ruling recognizes that foreign markets under foreign sovereign control are not equivalent to the U.S. markets under U.S. control in which a U.S. patentee's sale presumptively exhausts its rights in the article sold. A buyer may still rely on a foreign sale as a defense to infringement, but only by establishing an express or implied license—a defense separate from exhaustion, as *Quanta* holds—based on patentee communications or other circumstances of the sale. We conclude that *Jazz Photo*'s no-exhaustion principle remains sound after the Supreme Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), in which the Court did not address patent law or whether a foreign sale should be viewed as conferring authority to engage in otherwise-infringing domestic acts. *Kirtsaeng* is a copyright case holding that 17 U.S.C. § 109(a) entitles owners of copyrighted articles to take certain acts "without the authority" of the copyright holder. There is no counterpart to that provision in the Patent Act, under which a foreign sale is properly treated as neither conclusively nor even presumptively exhausting the U.S. patentee's rights in the United States.

BACKGROUND

The relevant facts are set forth in the limited record that the parties agreed was determinative of the result. Lexmark International, Inc. makes and sells printers as well as toner cartridges for its printers. Lexmark owns a number of patents that cover its cartridges and their use. The cartridges at issue here were first sold by Lexmark, some abroad and

some in the United States. Some of the foreign-sold cartridges and all of the domestically sold cartridges at issue were sold, at a discount, subject to an express single-use/no-resale restriction. Impression Products, Inc. later acquired the cartridges at issue in order to resell them in the United States—the restricted ones after a third party physically modified them to enable re-use in violation of the single-use/no-resale restriction. Impression has resold the patented Lexmark cartridges at issue in the United States, and has imported those it acquired abroad. In each case, it has acted without affirmative authorization from Lexmark and, for the restricted cartridges, in violation of the express denial of authorization to engage in resale and reuse. Impression's actions infringe under 35 U.S.C. § 271—unless the fact that Lexmark initially sold the cartridges constitutes the grant of authority that makes Impression's later resale and importation non-infringing under the doctrine of exhaustion. Whether Lexmark's initial sales have that effect raises two questions—one regarding the single-use/no-resale restricted sales (wherever they occur), the other regarding the initial foreign sales of all cartridges, whether restricted or not.

A

Lexmark offers buyers a choice. A buyer may purchase a "Regular Cartridge" at full price, in which case the buyer is not subject to any sale terms restricting reuse or resale of the cartridge. Alternatively, a buyer may purchase a "Return Program Cartridge" at a discount of roughly 20 percent, subject to a single-use/no-resale restriction: the buyer may not reuse the cartridge after the toner runs out and may not transfer it to anyone but Lexmark once it is used,

i.e., the buyer must "return" the cartridge "only" to Lexmark. J.A. 2559.[1] Lexmark and Impression stipulated in this case that the reduced price "reflects the value of the property interest and use rights conveyed to the purchaser under the express terms of the conditional sale contract and conditional single-use license conferred by Lexmark." *Id.* The stipulation adds that "Lexmark has an express and enforceable contractual agreement with each of its end-user customers." J.A. 2562. And it is undisputed that all end users receive adequate notice of the restriction supporting the discounted price before they make their purchases.

The distinctness of the options for buyers, which produce different revenues for Lexmark, is not just a matter of different terms of sale. It also is reflected in a microchip in the cartridges that, among other things, communicates with the printer. For a Return Program cartridge, the chip and printer, by monitoring toner levels, prevent use of a refilled cartridge. For a Regular cartridge, the toner can be replenished and the cartridge reused. J.A. 2559–60. "To circumvent this technological measure," however, "third parties have 'hacked' Lexmark's microchips and created their own 'unauthorized replacement' microchips" that, when installed in a Return Program cartridge, fool the printer into allowing reuse of that cartridge. J.A. 2560. It is undisputed that various companies gather spent cartridges, replace the microchips, refill and "remanufacture" the cartridges,

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[1] At oral argument, noting a reason the arrangement was not a lease, Lexmark stated that a Return Program Cartridge buyer is not absolutely required to return the cartridge to Lexmark. The restriction bars each of two acts: reusing the cartridge; transferring it to anyone else.

and sell them to resellers like Impression for marketing to consumers for use with Lexmark printers.

Lexmark sells its cartridges in two channels of distribution. It sells directly to end users, and it sells to "re-sellers" (including wholesalers, dealers, and distributors). Lexmark offers the options of Return Program and Regular cartridges in both channels; the resellers pay less for the Return Program cartridges; and the single-use/no-resale restriction applies to the resale by resellers. J.A. 2564. There is no dispute about the adequacy of notice to resellers as well as end users or the binding nature of the Lexmark-reseller agreements. J.A. 2562–64. When Lexmark sells its cartridges to end users, that sale is the first sale; when it sells to resellers, that sale is the first sale. When a reseller subsequently sells to end users, that sale is not the first sale.

B

Lexmark sued Impression, among other companies, for infringement under 35 U.S.C. § 271. It alleged that Impression acquires spent cartridges, including some Return Program cartridges that have been altered by chip replacement and toner refilling, then sells them in the United States and, for the foreign-bought ones, imports them into the United States.[2] For a large number of patents directly covering the cartridges, Lexmark alleged direct infringement under § 271(a). For a few patents that only the end user directly infringes, Lexmark alleged that

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[2] Lexmark has not argued to us that the chip replacement and ink replenishment result in new articles, which would be outside the scope of the exhaustion doctrine. *See Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961) (*Aro I*).

Impression is liable for contributory infringement under § 271(c). The operative complaint states the infringement allegations in a single count (Count I), covering past and continuing activity.

More specifically, the infringement allegations are limited to two groups of cartridges. One group consists of Return Program cartridges that Lexmark sold in the United States under the restriction denying authority for resale and reuse. As it later made clear, Lexmark did not allege infringement by Impression's actions involving Regular cartridges Lexmark had first sold domestically. J.A. 1895–97, 2557. The second group consists of *all* cartridges that Lexmark sold abroad, including Return Program and Regular cartridges. It is undisputed that Lexmark never granted anyone permission to import those cartridges into, or sell or use them in, the United States.

C

The litigation progressed to the point at which no defendant remained except Impression, and only the single count of infringement remained against Impression. Impression came to agree that the patents covered the cartridges it was importing and selling, and it did not dispute the validity or enforceability of the patents. It contested liability for infringement on just one ground, namely, that Lexmark had exhausted its U.S. patent rights in the cartridges by its initial sales of them.

Three defining aspects of Impression's contention to the district court, and presentation to us, are worth noting here, because they narrow our focus. *First*, we discuss only Lexmark's sales to end users (and the resales and reuses deriving from those sales), because neither party has made an argument

for distinguishing Lexmark's sales to resellers. *Second*, we take as a premise that both the first purchaser and Impression as a re-purchaser had adequate notice of the single-use/no-resale restriction before they made their purchases; the adequacy of that notice is unchallenged. Thus, we do not have before us the questions that would arise, whether under principles governing bona fide purchasers or otherwise, if a downstream re-purchaser acquired a patented article with less than actual knowledge of such a restriction. *Third*, Impression has not contended that the particular restriction at issue gives rise to a patent-misuse defense, constitutes an antitrust violation, or exceeds the scope of the Patent Act's express grant of exclusive rights over patented articles, 35 U.S.C. §§ 154, 271. Rather, Impression contends that, although there is no other illegality or breach of statutory limits identified, the single-use/no-resale restriction is to be disregarded for exhaustion purposes. According to Impression, it has the authority to resell despite the known denial of such authority by Lexmark for the Return Program cartridges.

Impression presented its exhaustion defense by filing motions to dismiss the infringement count, one motion for each of the two groups of cartridges at issue. For each motion, Impression did not contest that, under this court's governing law, its exhaustion defense must fail: *Mallinckrodt* for the cartridges initially sold in the United States, *Jazz Photo* for the cartridges initially sold abroad. But it argued that the Supreme Court's more recent decisions had made *Mallinckrodt* and *Jazz Photo* no longer good law. In a pair of opinions issued the same day, the district court agreed with Impression about *Mallinckrodt* but disagreed about *Jazz Photo*.

1

The district court granted Impression's motion to dismiss Lexmark's claim of infringement involving the single-use cartridges Lexmark had first sold in the United States. *Lexmark Int'l, Inc.* v. *Ink Techs. Printer Supplies, LLC*, No. 1:10-CV-564, 2014 WL 1276133 (S.D. Ohio Mar. 27, 2014) (*Domestic Sale Opinion*), modified at J.A. 34–35 based on a joint stipulation of the parties, J.A. 2554–66. Like Impression, the court recognized that there is no exhaustion here under this court's decision in *Mallinckrodt*, which rejected an exhaustion defense in circumstances similar to those presented here—namely, where a patentee sold a patented article subject to an otherwise-unobjectionable single-use restriction. *Id.* at *4, *6. And the court recognized this court's post-*Mallinckrodt* decisions as reiterating that a "'conditional sale'" of that type does not cause exhaustion of the patentee's preserved rights in the article. *Id.* at *4, *6 (quoting *Princo Corp.* v. *Int'l Trade Comm'n*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) (en banc)).

In nevertheless finding exhaustion here, the district court examined a number of Supreme Court decisions on patent exhaustion. It noted the Court's explanation in *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 549–50 (1853), that a patentee's grant of a license to another to make and sell a patented article is not the same thing as the patentee's sale of the article itself. *Domestic Sale Opinion*, 2014 WL 1276133, at *3. It noted, too, the Court's rejection of an exhaustion defense in *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 175, *opinion on rehearing at* 305 U.S. 124 (1938), which held that a buyer of a patented article infringed when it used the article in a way forbidden by a known use restriction, having bought the article from a manufac-

turer licensed by the patentee to make and sell the article only to buyers who complied with the use restriction. *Domestic Sale Opinion*, 2014 WL 1276133, at *3. The district court also noted that the Supreme Court in *Quanta* found exhaustion where "the Supreme Court determined that the agreements [at issue] broadly authorized Intel [the seller] to sell the licensed products *without* restrictions or conditions." *Id.* at *5 (emphasis added).

Despite that recognition of what *Quanta* involved, the district court concluded "that *Quanta* overruled *Mallinckrodt* sub silentio." *Id.* at *5, *6. Although Return Program cartridges were sold under post-sale restrictions on reuse and resale, the district court held that "those post-sale use restrictions do not prevent patent rights from being exhausted given that the initial sales were authorized and unrestricted." *Id.* The court thus dismissed the infringement claim regarding Impression's actions involving Return Program cartridges Lexmark had sold in the United States. *Id.* at *7.

2

As to cartridges Lexmark had sold abroad, the court held that exhaustion did not apply, *i.e.*, did not render Impression's imports and domestic resales of those cartridges non-infringing. *Lexmark Int'l, Inc.* v. *Ink Techs. Printer Supplies, LLC*, 9 F. Supp. 3d 830 (S.D. Ohio 2014) (*Foreign Sale Opinion*). The court recognized, and Impression did not dispute, that "under *Jazz Photo*, an initial authorized sale of a patented product outside of the United States would not exhaust the patent rights of the patent holder." *Id.* at 833. It then examined the Supreme Court's decision in *Kirtsaeng* and rejected Impression's contention that *Kirtsaeng* "overturns the Federal Circuit's

decision in *Jazz Photo*, 264 F.3d 1094, such that Lexmark's patent rights were exhausted upon the first authorized sale abroad." *Foreign Sale Opinion*, 9 F. Supp. 3d at 834 (footnote omitted).

The court stated that "[t]he Supreme Court's decision was rooted in interpretation of a statutory provision of copyright law," namely, 17 U.S.C. § 109(a). *Foreign Sale Opinion*, 9 F. Supp. 3d at 833. The district court noted the absence from *Kirtsaeng* of any discussion of exhaustion in the patent field and the Supreme Court's longstanding recognition that copyright law and patent law are not interchangeable. *Id.* at 835 (citing *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 346 (1908)). It added that *Kirtsaeng* "is rooted in statutory and legislative interpretation of section 109(a) of the Copyright Act," but "[n]oticeably absent from patent law is a codification of the exhaustion doctrine," concluding: "the core statutory text that weighed in favor of a non-geographical interpretation is non-existent in the context of patent law." *Id.* The Patent Act, the court concluded, calls for its own analysis of "context, history and practical considerations." *Id.* at 836.

For those reasons, while recognizing that this court might reconsider *Jazz Photo* in light of *Kirtsaeng*, the district court held that *Jazz Photo* remains good law. *Id.* at 837–38. The court therefore denied Impression's motion to dismiss Lexmark's claim of infringement involving the Foreign-Sold Cartridges. *Id.* at 838.

3

Soon thereafter, with the parties' agreement, the court entered a "Stipulated Final Judgment." J.A. 1. The judgment was (a) for Impression (*i.e.*, Impression does not infringe) as to the Return Program cartridg-

es whose precursors Lexmark had sold in the United States and (b) for Lexmark (*i.e.*, Impression infringes) as to cartridges whose precursors Lexmark had initially sold abroad. *Id.* The parties agree that the judgment is final under 28 U.S.C. § 1295(a)(1), even as to cartridges found to infringe.

In agreeing to the final judgment of infringement as to the foreign-sold cartridges, which remained an open issue after the Rule 12(b)(6) rulings, Impression reasonably construed the district court's *Jazz Photo* ruling to foreclose its exhaustion defense, even though all the district court had done was to deny Impression's request for judgment in its favor based on that defense. In particular, the district court's rationale as to the unavailability of exhaustion did not depend on the facts in the record that Lexmark identifies as suggesting the "regional" character of its foreign-sold cartridges, facts that therefore went unexplored in the district court. And, notably, when Impression agreed to a judgment of infringement as to foreign-sold cartridges, it did not preserve an implied-license defense, even though the Supreme Court made clear in *Quanta* the distinctness of implied-license and exhaustion defenses. 553 U.S. at 637.

D

Impression appealed and Lexmark cross-appealed. This court has jurisdiction under 28 U.S.C. § 1295(a)(1). The parties submitted briefs and presented oral argument to a panel of this court, focused on whether *Quanta* had stripped *Mallinckrodt* of its controlling force and whether *Kirtsaeng* had stripped *Jazz Photo* of its controlling force.

Shortly after oral argument, this court sua sponte took the case en banc. *Lexmark Int'l, Inc.* v.

Impression Prods., Inc., 785 F.3d 565 (Fed. Cir. 2015). We directed the parties to address the following issues:

> (a) The case involves certain sales, made abroad, of articles patented in the United States. In light of *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), should this court overrule *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion[?]
>
> (b) The case involves (i) sales of patented articles to end users under a restriction that they use the articles once and then return them and (ii) sales of the same patented articles to resellers under a restriction that resales take place under the single-use-and-return restriction. Do any of those sales give rise to patent exhaustion? In light of *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617 (2008), should this court overrule *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), to the extent it ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion?

Id. at 566.

DISCUSSION

I

The Patent Act's language defines the framework within which the two exhaustion questions arise. In 1952, based on pre-existing uncodified understandings, Congress set forth a statutory prescription of what constitutes patent "infringement." *See Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 483–84 (1964) (*Aro II*); *Aro I*, 365 U.S. at 341–42 & n.8. In its current form, which includes a bar on importation and offers to sell added by a 1994 enactment, § 271(a) states that, unless another provision of the Act provides otherwise, whoever "without authority" during the term of a patent commits certain acts— "makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention"— "infringes the patent." 35 U.S.C. § 271(a).

Section 271(a) connects "make," "sell," "use," and the other terms with the disjunction "or," as does the related provision granting the patentee various rights to exclude others from the same activities, *id.* § 154(a). Congress has thus prescribed that whoever, "without authority," does any one of the listed acts— "the making, using, offering to sell, selling, *or* importing of a patented invention," *Global-Tech Appliances, Inc.* v. *SEB S.A.*, 131 S. Ct. 2060, 2065 (2011) (emphasis added)—is an infringer. *See* 5 Donald S. Chisum, Chisum on Patents § 16.01 (2015) ("The exclusive rights are disjunctive: one may infringe by (1) making without selling or using, (2) using without making or selling or (3) selling without making or using.") (footnote omitted); William C. Robinson, The Law of Patents §§ 903–906 (1890). The government observes: "Nothing in the text of the Patent Act ex-

pressly prevents a patentee from demanding compensation from each downstream user or reseller of an article embodying his invention." U.S. Br. 5.

Section 271(a)'s language embodies an understanding of "infringement" that was long recognized even before Congress enacted § 271 as part of the 1952 recodification of the patent laws. The pre-1952 statute included a right-to-exclude provision comparable to § 154, which, in language that varied over time, gave the patentee a right to exclude others (not a right to practice the invention). *See* 35 U.S.C. § 40 (1946); Rev. Stat. § 4884; *Bauer & Cie.* v. *O'Donnell*, 229 U.S. 1, 9–10 (1913); 5 Chisum § 16.02[1]. But while the pre-1952 statute provided for actions for "infringement," *e.g.*, 35 U.S.C. §§ 67, 70 (1948); Rev. Stat. §§ 4919, 4921, there was no provision prescribing what constitutes infringement. Nevertheless, the courts consistently understood infringement to mean what § 271 came to say—committing the identified acts without authority (synonymously, without consent or permission): "The infringement of a patent, being the invasion of this exclusive right, therefore consists in the manufacture, use, or sale of the invention protected by the patent within the area and time described in the patent, *by any person not duly authorized to do so by the patentee*." Robinson, § 890, at 43–44 (emphasis added); *see* 3 Anthony William Deller, Walker on Patents § 450, at 1681 (1937) ("An infringement is the unauthorized making or using or selling of the patented invention.").[3] Thus, the 1952

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[3] *See, e.g., Global-Tech Appliances, Inc.*, 131 S. Ct. at 2065 n.2; *General Talking Pictures*, 304 U.S. at 181–82; *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 38 (1923); *Geneva Furniture Mfg. Co.* v. *S. Karpen & Bros.*, 238 U.S. 254, 257 (1915); *Cantrell* v. *Wallick*, 117 U.S. 689, 694 (1886); *Blake* v. *Robertson*, 94 U.S. 728, 733 (1876); *Smith* v. *Nichols*, 88 U.S.

Act's "without authority" language simply codifies an authority requirement long recognized to be the meaning of "infringement" of the enumerated rights to exclude. *See Warner-Jenkinson Co.* v. *Hilton Davis Chem. Co.*, 520 U.S. 17, 26–27 (1997) (§ 271(a) left direct-infringement law intact); *Aro II*, 377 U.S. at 483; *Aro I*, 365 U.S. at 342; Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 Geo. Wash. L. Rev. 521, 537 (1953).

The requirement of "authority" in order to avoid infringement, in its natural meaning, refers to a grant of permission. Logically, permission might come from Congress, whether outside the Patent Act or within the Patent Act itself, as reflected in § 271(a)'s "[e]xcept as otherwise provided in [the Patent Act]" language, which explicitly bows to other contrary sections of the Patent Act. But it is undisputed that no other statutory provision applies in this case. *See* U.S. Br. 5; *compare* 35 U.S.C. § 262 (each joint owner of a patent may engage in making, using, selling, offering to sell, and importing without authority from other owners). Nothing in the Act supersedes the § 271 requirement of authority from the patentee before a person in Impression's position may engage in the itemized acts without infringing.

In this respect, the Patent Act differs from the Copyright Act. In the copyright statute, Congress included a provision giving a right of sale to certain article owners, 17 U.S.C. § 109(a), and made the infringement, importation, and exclusive-rights provi-

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(21 Wall.) 112, 118–19 (1875); *Bloomer*, 55 U.S. (14 How.) at 549.

sions all subservient to that express guarantee.[4] The Patent Act does not contain a congressionally prescribed exhaustion rule, let alone a provision that makes the express definition of infringement and rights to exclude (both of which now encompass importation) subservient to any congressionally expressed exhaustion rule.[5]

In the Patent Act, then, as relevant here, it is a conferral of "authority" by the patentee that is needed in order for the actions listed in § 271(a) not to constitute infringement. As the government says, noting the parallelism of § 271(a) and the § 154(a) grant of rights to exclude, what § 271(a) means is that "[w]hoever does any of these acts 'without au-

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[4] 17 U.S.C. § 501(a) defines "an infringer of the copyright" as "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122." Section 106 gives the copyright owner "the exclusive rights to do and to authorize" certain actions, such as making copies and "distribut[ing] copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership," *id.* § 106(1), (3), but it declares that those rights are "[s]ubject to sections 107 through 122"—hence to section 109(a). Similarly, § 602(a) declares importation to be "an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501." Section 602 makes the importation bar subservient to § 109(a) by making it subservient to the § 106(3) right, which in turn is subservient to § 109(a), as the Supreme Court held in *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135, 145 (1998), and reiterated in *Kirtsaeng*, 133 S. Ct. at 1354–55.

[5] Since 1999 Congress has provided a prior-use defense to infringement in certain circumstances and, in so doing, given a sale or disposition by a person having a prior-use defense the same exhaustion effect as a sale or disposition by a patent owner. *See* 35 U.S.C. § 273(d); *id.* § 273(b)(2) (2006). But Congress has not defined the underlying patent-exhaustion rule.

thority' *from the patentee* infringes the patent." U.S. Br. 1 (emphasis added). In brief: § 271(a) by its terms requires that whoever engages in the enumerated acts receive permission from the patentee (directly or indirectly) for the acts being performed, which otherwise are infringing; and nothing in § 271(a) constrains the patentee's choices about whom to grant the required authority, if anyone, or about which acts (of manufacture, use, sale, etc.) to authorize, if any.

Congress defines the existence and scope of patent rights. *See, e.g.*, *Octane Fitness, LLC* v. *ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755–56 (2014); *Crown Die & Tool Co.*, 261 U.S. at 40; *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 423 (1908). Unless Congress has directed the courts to fashion governing rules in a particular statutory context (as in, *e.g.*, the Sherman Act), "once Congress addresses a subject, even a subject previously governed by federal common law, the justification for lawmaking by the federal courts is greatly diminished. Thereafter, the task of the federal courts is to interpret and apply statutory law, not to create common law." *Northwest Airlines, Inc.* v. *Transp. Workers Union of Am.*, 451 U.S. 77, 95 n.34 (1981); *see City of Milwaukee* v. *Illinois*, 451 U.S. 304, 315 (1981) ("Our commitment to the separation of powers is too fundamental to continue to rely on federal common law by judicially decreeing what accords with common sense and the public weal when Congress has addressed the problem.") (internal quotation marks omitted); *Am. Elec. Power Co.* v. *Connecticut*, 131 S. Ct. 2527, 2537 (2011).

If ordinary congressional supremacy is to be respected, exhaustion doctrine in the Patent Act must be understood as an interpretation of § 271(a)'s "without authority" language. And so it has been un-

derstood: some sales confer authority on the purchaser to take certain actions—such as selling or using the purchased article in the United States or importing it into the United States—that would otherwise be infringing acts. *See* 5 Chisum § 16.03[2][a], at 16-362.8; U.S. Br. 1 (tying exhaustion to "authority" language of § 271(a)). We decide here (a) whether a sale, even though accompanied by a clearly communicated and otherwise-lawful denial of such authority, nonetheless has the legal effect of conferring such authority and (b) whether a foreign sale has the legal effect of conferring such authority where (as we must assume at present in this case) neither a grant nor a reservation of § 271(a) rights was communicated to the purchaser before the foreign sale.[6]

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[6] Before 1952, the patent statute provided that "[e]very person who purchases of the inventor, . . . or with his knowledge and consent constructs any newly invented . . . machine, or other patentable article, prior to the application by the inventor . . . for a patent, or who sells or uses one so constructed, shall have the right to use, and vend to others to be used, the specific thing so made or purchased, without liability therefor." 35 U.S.C. § 48 (1946); Rev. Stat. § 4899. That provision dated from 1870; a broader version (from 1839) did not depend on purchase from the inventor or construction with the inventor's knowledge and consent. *See Dable Grain Shovel Co.* v. *Flint*, 137 U.S. 41, 42 (1890). The pre-1952 provision was viewed as a species of "implied license." 3 Walker on Patents § 451, at 1682–83; Robinson, § 917, at 88.

The Patent Act of 1952 repealed the provision, the House Report briefly explaining that it was "[r]edundant and unnecessary." H.R. Rep. No. 82-1923, at 72 (1952). No argument for the significance of the repeal has been made to us—perhaps because (1) the provision did not depend on a sale; (2) it involved (pre-patent) conduct viewed as giving an "implied license," which the Court has distinguished from "exhaustion," *Quanta*, 553 U.S. at 637; and (3) it was not authoritatively construed to apply even to sales subject to authority-denying restrictions.

II

The *Mallinckrodt* issue has been framed for us in clear terms. Suppose that Lexmark had granted another firm a nonexclusive license to make and sell Return Program cartridges. It is undisputed and clear under Supreme Court precedent—most prominently, the 1938 decision in *General Talking Pictures*—that Lexmark would not have exhausted its patent rights in those cartridges, upon the manufacturing licensee's sale (the first sale), if a buyer with knowledge of the restrictions resold or reused them in violation of the restrictions. Impression and the government contend that a different result is required—that Lexmark automatically lost its patent rights—simply because Lexmark sold the Return Program cartridges itself, subject to the same communicated restriction, rather than having left the manufacture and sale to others under license. *See* U.S. Br. 7, 8, 10, 11 (case turns on distinction between patentee sale and non-patentee licensee sale). (Impression has left the en banc briefing on this issue largely to the government.)

We conclude otherwise, as we did in *Mallinckrodt* and subsequent decisions. A sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the "authority" to engage in the use or resale that the restriction precludes. And there is no sound reason, and no Supreme Court precedent, requiring a distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product.

A

Mallinckrodt involved a patentee's sale of its medical device to hospitals, subject to a "single use only" restriction. The device consisted of a nebulizer and associated components for delivering to a patient, for diagnosis or treatment of lung diseases, a mist of radioactive or therapeutic material. It also trapped radioactive or toxic material when the patient exhaled. Mallinckrodt sold it under the single-use condition and with instructions for post-use disposal in a lead-shielded container. But some hospital purchasers instead sent used devices to Medipart for reconditioning and for replacement of certain components. When Mallinckrodt sued Medipart for direct and indirect infringement by virtue of the reuse in violation of the single-use restriction, the district court granted Medipart summary judgment of non-infringement, concluding that Mallinckrodt's sale of the devices exhausted its ability to assert its patent rights in the units sold. 976 F.2d at 701–02.

This court reversed. *Id.* at 709. The court stated its ruling: "The restriction here at issue does not *per se* violate the doctrine of patent misuse or the antitrust law. Use in violation of a valid restriction may be remedied under the patent law, provided that no other law prevents enforcement of the patent." *Id.* at 701.

In explanation, the court observed that the patent grant of § 154 is a "right to exclude," which "may be waived in whole or in part," "subject to patent, contract, antitrust, and any other applicable law, as well as equitable considerations such as are reflected in the law of patent misuse." *Mallinckrodt*, 976 F.2d at 703. It noted that the Supreme Court had held that two particular types of restrictions in sales ex-

ceeded the legitimate scope of patent rights, so that the patentee did not retain its patent rights against a buyer's sale or use of a patented article in violation of those particular conditions: resale-price-maintenance conditions, *Bauer*, 229 U.S. 1; *Straus* v. *Victor Talking Machine Co.*, 243 U.S. 490 (1917); *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U.S. 8 (1918), and tying arrangements requiring use of non-patented articles with the patented one, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917). *Mallinckrodt*, 976 F.2d at 704. The *Mallinckrodt* court explained that those cases "did not hold, and it did not follow, that all restrictions accompanying the sale of patented goods were deemed illegal." *Id.*

The court then described the key Supreme Court precedent, *General Talking Pictures*. As the *Mallinckrodt* court observed, in *General Talking Pictures* "the patentee had authorized the licensee to make and sell amplifiers embodying the patented invention for a specified use (home radios)," and "[t]he defendant had purchased the patented amplifier from the manufacturing licensee, with knowledge of the patentee's restriction on use," but used it contrary to the restriction. *Id.* at 705. The Supreme Court held that the defendant was liable for infringement; it "observed that a restrictive license to a particular use was permissible, and treated the purchaser's unauthorized use as infringement of the patent." *Id.* This court noted that the Supreme Court in *General Talking Pictures* "did not decide the situation where the patentee was the manufacturer" and seller. *Id.* This court then held that to distinguish the patentee sale (at issue in *Mallinckrodt*) from the licensee sale (at issue in *General Talking Pictures*) would be to

make "formalistic distinctions of no economic consequence." *Id.*

Finally, the court described "a group of cases in which the Supreme Court considered and affirmed the basic principles that unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device; and that the sale of patented goods, like other goods, can be conditioned." *Id.* at 706. This court noted that, insofar as several cases ruling against patentees' claims discussed or involved sales, the sales were not made under restrictions as to use. *Id.* at 707 (discussing *Bloomer*, 55 U.S. (14 How.) 539; *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453 (1873); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659 (1895)). The court also noted the statement in *Mitchell* v. *Hawley* that "[s]ales of the kind may be made by the patentee with or without conditions," 83 U.S. (16 Wall.) 544, 548 (1873), and the holding of *Mitchell* that a purchaser of a patented machine "licensed for use only during the original term of the patent" was liable for infringement for using the machine past that term when the patent term was extended. 976 F.2d at 707.

The court in *Mallinckrodt* concluded that "[u]nless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law, *e.g.*, *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942)), private parties retain the freedom to contract concerning conditions of sale." 976 F.2d at 708. Thus, unless a sale restriction is improper under some other body of law, whether within the Patent Act or outside it, a patentee's own sale of its patented article subject to a clearly communicated restriction does not confer authority to sell or use the article in violation of that restriction, *i.e.*, does not exhaust the patentee's § 271 rights against such con-

duct involving that article. Since *Mallinckrodt*, we have followed that principle. *B. Braun Med., Inc.* v. *Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997); *Princo Corp.* v. *Int'l Trade Comm'n*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) (en banc).

B

The district court concluded in this case that *Quanta* overturned the *Mallinckrodt* rule as to a patentee's sale of a patented article subject to a clearly communicated single-use/no-resale restriction. But no issue as to such a sale was presented for decision or decided in *Quanta*. And the Supreme Court in *Quanta* did not address the distinction between patentee sales and licensee sales on which the argument for overturning *Mallinckrodt* rests.

Quanta did not involve a patentee's sale at all, let alone one subject to a restriction or, more particularly, a single-use/no-resale restriction. *Quanta* involved a sale made (to computer maker Quanta) not by the patentee (LGE) but by a manufacturing licensee (chip maker Intel), which the patentee had authorized to make and sell the articles at issue (chips for installation in computers that would then be covered by LGE's patents). 553 U.S. at 623–25. And the patentee's authorization to the licensee to make (the first) sales was *not* subject to any conditions, much less conditions to be embodied in those sales. *Id.* at 636–38. While Intel had certain other contractual obligations to LGE regarding notice to Intel's purchasers, neither party contended that Intel breached those obligations, and in any event, the Court repeatedly stated that the relevant LGE-Intel contract gave Intel an unrestricted authorization to sell the articles. *Id.* at 636–37 ("Intel's authority to sell its products embodying the LGE Patents was not condi-

tioned on the notice or on Quanta's decision to abide by LGE's directions in that notice."); *id.* at 637 ("The License Agreement authorized Intel to sell products that practiced the LGE Patents. No conditions limited Intel's authority to sell products substantially embodying the patents."); *id.* at 638 ("Nothing in the License Agreement limited Intel's ability to sell its products practicing the LGE Patents.").

In short, *Quanta* did not involve the issue presented here. The facts defining the issues for decision, and the issues decided, were at least two steps removed from the present case. There were no patentee sales, and there were no restrictions on the sales made by the licensee.

The two main issues decided by the Court in *Quanta* have no bearing on the issue of restricted sales by a patentee. The Court decided that exhaustion applies to method claims. *Id.* at 628–30. And the Court decided "the extent to which a product must embody a patent in order to trigger exhaustion." *Id.* at 630; *see id.* at 630–35.

Only the third issue addressed by the Court in *Quanta* concerns restrictions on sales—though not patentees' sales—and the Court's discussion of that issue does not undermine *Mallinckrodt*'s ruling that a patentee can preserve its patent rights through restrictions on its sales. As just described, when LGE invoked precedent such as *General Talking Pictures* that make clear that patentees are able to preserve their patent rights through restrictions on the sales they authorizes licensees to make, *Quanta*, 553 U.S. at 636, the Court's response was to conclude that there simply were no such restrictions on LGE's grant to Intel of the authority to sell. *Id.* at 636– 38. The Court thus had prominently in view the princi-

ple that, through at least one path, a patentee can reserve its patent rights through sale restrictions. The Court found the principle inapplicable to the case before it because of the absence of any restriction, and the Court said nothing to cast doubt on the principle. Indeed, the Court indirectly underscored the principle when it quoted *Motion Picture Patents* as stating "the rule" of exhaustion in terms expressly based on an " 'unconditional sale.' " *Quanta*, 553 U.S. at 626 (quoting *Motion Picture Patents*, 243 U.S. at 516). And the Court did not consider whether or decide that the principle was limited to contracted-out, as distinguished from in-house, manufacturing and sales, or even recognize and discuss such a distinction.

Inferring disapproval of *Mallinckrodt* by the Supreme Court in *Quanta* is unwarranted for another reason. The decision of this court under review in *Quanta* relied centrally on *Mallinckrodt* and its successor case, *B. Braun Medical. See LG Elecs., Inc.* v. *Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006). In the Supreme Court, the government prominently featured an argument that *Mallinckrodt* was incorrect and should be repudiated, U.S. Amicus Brief at 18–24, *Quanta* (No. 06-937), 2007 WL 3353102, and Quanta presented similar criticisms of *Mallinckrodt*, Brief for Petitioner at 13, 30–33, *Quanta* (No. 06-937), 2007 WL 3276505. Yet the Supreme Court said nothing about *Mallinckrodt* or *B. Braun Medical*. The evident explanation is that, at a minimum, no question was presented for decision—or was being decided—as to the effect a restriction on the first sale, whether made by a patentee or by a manufacturing licensee, would have on preservation of § 271 rights.

C

For the foregoing reasons, the challenge to *Mallinckrodt* in the present case cannot rest on what the Supreme Court in *Quanta* ruled about the issues it said it was addressing or the facts and issues presented for decision. The challenge asserts that any post-sale restriction in a patentee's own sale fails, as a matter of law, to preserve the patentee's § 271 rights against unauthorized sales or uses. The argument rests ultimately on language the Court used in *Quanta* in introducing the exhaustion doctrine before defining the specific issues for decision— as it has done elsewhere.

The Court in *Quanta* said: "The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." 553 U.S. at 625. More recently, the Court used similar "authorized sale" language in introducing the exhaustion doctrine in *Bowman* v. *Monsanto Co.*, which held that a patentee, by selling patented seeds, does not lose its § 271 right to prevent the buyer from making new seeds. The Court said: "Under the doctrine of patent exhaustion, the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article." 133 S. Ct. 1761, 1764 (2013). *See also, e.g.*, *Univis*, 316 U.S. at 249 ("authorized sale"); Dissent at 3–5.

The challenge to *Mallinckrodt* asserts that any sale of a patented article by a patentee, even when the rights granted are expressly restricted, is automatically an "authorized sale," causing the patentee to lose all § 271 rights in the item sold. That consequence follows, the argument goes, no matter how clearly the patentee states an otherwise-lawful re-

striction on what authority is being conferred and what authority is being withheld. In this view, exhaustion law embodies a sharp distinction between a sale by a patentee (for which restrictions are to be disregarded) and a sale made by another person authorized by the patentee to sell, *i.e.*, a licensee as in *General Talking Pictures* (for which a patentee may preserve its § 271 rights by restricting the licensee's authorized sales).

That is an extraordinary doctrinal consequence to find established by the Supreme Court's use of the phrase "authorized sale." No one suggests that *Bowman* (concerning new articles) intended such consequences. And there are good reasons not to find any such implied meaning in *Quanta* either.

1

Most obviously, as discussed above, the Court was not addressing the patentee-sale/licensee-sale distinction. Among other things, the Court did not consider the issues presented by making such a distinction, such as where the line would sensibly be drawn along the spectrum that includes original patentees, assignees, exclusive licensees, and nonexclusive licensees. Such distinctions matter for determining who may bring infringement suits, but they can involve detailed inquiries into the contractual relationships between an original patent owner and others (here, a first seller), based on information a buyer may have no ability or reason to acquire. *See, e.g.*, *Independent Wireless Telegraph Co.* v. *Radio Corp. of Am.*, 269 U.S. 459, 464–69 (1926); *Crown Die & Tool*, 261 U.S. at 40–41; *E.W. Bliss Co.* v. *United States*, 253 U.S. 187, 192 (1920); *Pope Mfg. Co.* v. *Gormully & Jeffery Mfg. Co.*, 144 U.S. 248 (1892); *Waterman* v. *Mackenzie*, 138 U.S. 252, 255–

56 (1891); 8 Chisum § 21.03. Nothing in *Quanta* suggests that the Court either considered such issues or intended to build such inquiries into the exhaustion doctrine by making the distinction the government now urges.

2

One cannot infer the contrary from the immediate context of the "authorized sale" phrase, *i.e.*, from the several decisions that *Quanta* briefly describes in the paragraph it introduces with the "authorized sale" shorthand. 553 U.S. at 625. Those decisions did not involve restricted patentee sales of patented articles. And the *Quanta* Court, in describing those cases, said nothing to indicate adoption of a patentee-sale/licensee-sale distinction.

Thus, *Bloomer* v. *McQuewan* identifies no sale of a patented article as involved in the case. During an initial patent term, a license granted to the defendants (via Collins and Smith, then Barnet, then Warner and McQuewan) the right to make patented machines and use them "without any limitation as to the time for which they were to be used." 55 U.S. (14 How.) at 553; *id.* at 540–41, 548. When the defendants made and used such machines, and the patent term was later extended, the Supreme Court held that the unrestricted right to use did not end when the earlier patent term ended, because the right to use did not come from the patent statute, which grants only rights to exclude, not rights to practice. *Id.* at 549–50. The Court discussed purchased articles, but with no restrictions at issue, it did not decide the effect that any restrictions would have. *Id.*

Bloomer v. *Millinger*, 68 U.S. (1 Wall.) 340 (1864), is similar in its facts to *McQuewan*. The Court held that Millinger, who "constructed the ma-

chines and put them in operation under the authority of the patentee or his assigns" during a first term extension, was not subject to an infringement action for continued use during a second term extension. *Id.* at 349, 350. The Court made no distinction between construction and purchase, or between purchases "from the patentee . . . or from any other person by him authorized to" make the sale, on the issues addressed. *Id.* at 350, 351. In referring to a constructor or purchaser of a patented machine having "*also* acquired the right to use and operate it during the lifetime of the patent," *id.* at 350 (emphasis added), the Court implicitly recognized that a purchaser might *not* acquire a full right to use an acquired article.

And in *Adams* v. *Burke*, the Boston regional assignee (Lockhart & Seelye) sold patented coffin lids to Burke, "*without condition or restriction.*" 84 U.S. (17 Wall.) at 455 (emphasis added). When Burke used the lids outside the Boston territory, for burials within a different territory where Adams was the regional assignee, Adams sued. The Court held that, for such an unrestricted sale, "there is no restriction on their ***use to be implied*** for the benefit of the patentee or his assignees or licensees." *Id.* at 457 (bold italics added).

When the Supreme Court in *Quanta* moved beyond the *Bloomer* cases and *Adams*, it likewise did not advance a patentee-sale/licensee-sale distinction. 553 U.S. at 625–26. The Court's next paragraph recounts the developments of the 1910s: The Court initially adopted a broad greater-includes-the-lesser approach allowing preservation of patent rights through even otherwise-unlawful restrictions, such as tie-ins, *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912); but the Court quickly rejected that broad principle and its application to resale price maintenance, *Bau-*

er, 229 U.S. 1 (1913), and then to tie-ins, *Motion Picture Patents*, 243 U.S. 502 (1917), the latter expressly overruling *A.B. Dick*. The Court in *Quanta*, summarizing that history, said nothing about the patentee-sale/licensee-sale distinction; and it recognized that the "rule" that emerged, as quoted from *Motion Picture Patents*, was one based on " 'a single, *unconditional* sale.' " 553 U.S. at 626 (emphasis added).

The Court in *Quanta* then proceeded to a longer discussion of *Univis*. That discussion made no patentee-sale/licensee-sale distinction. Rather, it recounted *Univis*'s application of exhaustion to sales of articles that may not be strictly covered by the patent but that sufficiently embody the patent. 553 U.S. at 627–28.

In no part of the Court's discussion did the Court consider which cases involved "patentee" sales and which "licensee" sales. Indeed, it is not always easy to tell where the facts of each case fall on the spectrum from original patentee through non-exclusive licensee. *See, e.g.*, *Bauer*, 229 U.S. at 8 (seller was either "agent" or "licensee"). The Court in *Quanta* did not say that the inquiry mattered. And in *Univis*, the Court did the opposite of suggesting that the distinction matters: it affirmatively stated that it was treating the patent owner (Univis Corporation) and the licensee-seller (Lens Company) as the same for purposes of its analysis. 316 U.S. at 243.

3

In these circumstances, it would read too much into the Court's use of the phrase "authorized sale" to draw the government's conclusion—making the sharp patentee-sale/licensee-sale distinction— without full analysis of statutory, precedential, and other

considerations. Full analysis of the relevant legal context is necessary.

Such analysis would be required regardless, but it is important to note that the phrase "authorized sale" does not, by its words alone, compel the government's conclusion. It has long been a familiar feature of our legal landscape that property rights in a particular thing—like the separate interests in making, selling, using, etc., an invention—are viewed as a "bundle" of rights (or sticks) that can generally be transferred separately.[7] Of course, particular legal regimes, for various purposes, commonly identify the transfer of particular rights as determinative of a "sale." In determining which transfers are decisive, context matters. And here the context is a statute that identifies separate rights of manufacture, sale, use, etc., and the precedential setting is one that expressly recognizes the possibility of separating the rights in a patented article. *See, e.g.*, *Mitchell*, 83 U.S. (16 Wall.) at 547 (exhaustion exists when a patentee "has himself constructed a machine and sold it *without any conditions*, or authorized another to construct, sell, and deliver it, or to construct and use and operate it, *without any conditions* . . ."; "the own-

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[7] *See, e.g.*, *Horne* v. *Dep't of Agric.*, 135 S. Ct. 2419, 2428 (2015); *Tahoe-Sierra Pres. Council, Inc.* v. *Tahoe Reg'l Planning Agency*, 535 U.S. 302, 327 (2002); *New York Times Co.* v. *Tasini*, 533 U.S. 483, 495–96 (2001); *Keystone Bituminous Coal Ass'n* v. *DeBenedictis*, 480 U.S. 470, 500–01 (1987); *United States* v. *Sec. Indus. Bank*, 459 U.S. 70, 75–76 (1982); *Loretto* v. *Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 433 (1982); *Kaiser Aetna* v. *United States*, 444 U.S. 164, 176 (1979); *Fidelity-Phila. Trust Co.* v. *Smith*, 356 U.S. 274, 278–79 (1958); *Guggenheim* v. *Rasquin*, 312 U.S. 254, 257–58 (1941); *Charles C. Steward Mach. Co.* v. *Davis*, 301 U.S. 548, 580–81 (1937); *Henneford* v. *Silas Mason Co.*, 300 U.S. 577, 582 (1937).

er of the machine, whether he built it or purchased it, *if he has also acquired the right to use and operate it during the lifetime of the patent*, may continue to use it") (emphases added); *Bloomer* v. *Millinger*, 68 U.S. (1 Wall.) at 350. Moreover, the statutory purpose of the inquiry here is to identify what sales confer "authority" on the buyer to engage in distinct, otherwise-infringing acts.

Context is particularly important where, as here, the phrase being interpreted comes from judicial opinions not directly deciding the point at issue. Chief Justice Marshall wrote for the Court almost 200 years ago: "It is a maxim not to be disregarded, that general expressions, in every opinion, are to be taken in connection with the case in which those expressions are used." *Cohens* v. *Virginia*, 19 U.S. (6 Wheat.) 264, 399–400 (1821); *see Armour & Co.* v. *Wantock*, 323 U.S. 126, 132–33 (1944) (per Jackson, J.) ("[W]ords of our opinions are to be read in the light of the facts of the case under discussion. . . . General expressions transposed to other facts are often misleading.").[8] We bear that maxim in mind in applying the body of Supreme Court case law on ex-

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[8] *See also Ark. Game & Fish Comm'n* v. *United States*, 133 S. Ct. 511, 520 (2012) (quoting *Cohens*); *United States* v. *Alvarez*, 132 S. Ct. 2537, 2544–45 (2012); *Illinois* v. *Lidster*, 540 U.S. 419, 424 (2004); *Reiter* v. *Sonotone Corp.*, 442 U.S. 330, 341 (1979); *United Gas Improvement Co.* v. *Cont'l Oil Co.*, 381 U.S. 392, 404 (1965); *Wright* v. *United States*, 302 U.S. 583, 593–94 (1938); *Sterling* v. *Constantin*, 287 U.S. 378, 400 (1932) ("the general language of the opinion must be taken in connection with the point actually decided"); *Pacific S.S. Co.* v. *Peterson*, 278 U.S. 130, 136 (1928); *Bramwell* v. *U.S. Fid. & Guar.Co.*, 269 U.S. 483, 489 (1926) ("It is a rule of universal application that general expressions used in a court's opinion are to be taken in connection with the case under consideration.").

haustion: that body of precedent contains no decision against a patentee's infringement assertion in the present circumstances, and the decisions on related circumstances require careful reading to determine the best understanding of what issues the Court actually decided.

D

We conclude that a patentee may preserve its § 271 rights when itself selling a patented article, through clearly communicated, otherwise-lawful restrictions, as it may do when contracting out the manufacturing and sale.

1

That conclusion follows naturally from the statute. Congress straightforwardly prescribed, in § 271(a), that a sale or use of a patented article "without authority" is an infringement. Under that language, a clear denial of authority leaves a buyer without the denied authority.

The exhaustion rule for *un*restricted sales readily fits the language of § 271(a). It is reasonable for the courts to treat a patentee-made or patentee-authorized sale of a patented article (without distinction) as *presumptively* granting "authority" to the purchaser to use it and resell it. Such an approach recognizes the utility of having a default rule for determining whether authority has been conferred in the many circumstances where an express conferral is missing. And it chooses as the default a principle that sensibly accords with parties' likely expectations as to a domestic sale.

But it is quite a different matter to treat a sale as conferring on the buyer the very authority that is being denied through clearly communicated re-

strictions. *Mallinckrodt* sensibly rejects that countertextual result. Unless granting "authority" is to be a legal fiction, a patentee does not grant authority by denying it. And that is so for patentee sales and licensee sales alike, *i.e.*, whether the patentee denies the authority to its direct purchaser or to one purchasing through a manufacturing licensee. For the same reason, the result does not reasonably reflect market participants' expectations: a buyer cannot reasonably expect that the seller is conferring authority that the seller is expressly denying, whether the seller is the patentee or a manufacturing licensee. The statutory question of authority neither allows denials to be grants nor logically depends on whether there is an intermediary between the patentee and the first buyer.

In short, the government's position would create a rule of court-made law that runs counter to, rather than accords with, the statutory definition of actionable infringement. An exhaustion rule should fit rather than contradict the statutory text.

2

Under longstanding Supreme Court precedent, a patentee may preserve its patent rights against downstream buyers by arranging with someone else, even a nonexclusive licensee, to make and sell patented articles, under clearly stated restrictions on post-sale activities. There is no good reason that a patentee that makes and sells the articles itself should be denied the ability that is guaranteed to a non-practicing-entity patentee. No precedent requires a contrary conclusion.

a. The Supreme Court has recognized that a patentee *may* preserve its rights against infringement by establishing restrictions accompanying the sale of

the patented article (communicated at the time of sale), including restrictions on the buyer's post-acquisition use. That recognition is implicit in the *Motion Picture Patents* statement of the exhaustion rule as based on an "unconditional" sale, as quoted in *Quanta*, 553 U.S. at 626. More affirmatively, the Court upheld a claim of infringement on that basis in *Mitchell* v. *Hawley*, where the licensee seller was under a restriction as to the (temporal) scope of rights it could and did convey when selling the patented machine. *Mitchell* involved a licensee seller, but the Court stated the exhaustion principles in terms keyed to the absence of conditions and applicable to patentee sales:

> [W]hen [the patentee] has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it, or to construct and use and operate it, without any conditions, and the consideration has been paid to him for the thing patented, the rule is well established that the patentee must be understood to have parted to that extent with all his exclusive right, and that he ceases to have any interest whatever in the patented machine so sold and delivered or authorized to be constructed and operated.

83 U.S. (16 Wall.) at 547; *see id.* at 548 (sales "may be made by the patentee with or without conditions, as in other cases, but where the sale is absolute, and without any conditions, the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out").[9] Although

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[9] We do not see a sufficient basis to read *Mitchell*'s "without conditions" language as limited to sales in which title is not

Mitchell involved a licensee sale, its language did not distinguish licensees' sales from patentees' sales in the respects discussed, and it was not long before the Court invoked those formulations in a patentee-sale case. *Keeler*, 157 U.S. at 662–63.

Most importantly, the Court squarely held in the *General Talking Pictures* case that a patentee could preserve its infringement rights against unauthorized uses by restricting manufacturing licensees' authority to sell for such uses. *General Talking Pictures Corp.* v. *Western Elec. Co.*, 304 U.S. 175, *opinion on rehearing at* 305 U.S. 124 (1938). Companies holding patent rights in certain amplifiers (AT&T, Western Electric, RCA) licensed the American Transformer Company to make and sell amplifiers. The Transformer Company "was a mere licensee under a non-exclusive license, amounting to no more than 'a mere waiver of the right to sue.' " 304 U.S. at 181 (quoting *De Forest Radio Telephone & Telegraph Co.* v. *United States*, 273 U.S. 236, 242 (1927)). The license permitted sales only "for radio amateur reception, radio experimental reception, and home broadcast reception," not "for use in theaters as a part of talking picture equipment." *Id.* at 180. The Transformer Company nevertheless sold amplifiers to General Talking Pictures for theater use in violation of the restriction, and General Talking Pictures "had actual knowledge

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transferred until a condition is fulfilled (sometimes called "conditional sales"). The terminology in *Mitchell* is not limited to "conditional sales," and the Court later used the term "conditions" more broadly, including in discussions of *Mitchell*. *See Motion Picture Patents*, 243 U.S. at 506, 514–15; *A.B. Dick*, 224 U.S. at 12, 16, 19; *In re Paper-Bag Cases*, 105 U.S. 766, 770–71 (1882). In any event, the language of *Mitchell* is just one part of the analysis, of which *General Talking Pictures* is the most significant precedent.

that [the Transformer Company] had no license to make such a sale." *Id.* When the patentees sued General Talking Pictures (the buyer) for infringement, the Supreme Court, based on *Mitchell*, affirmed the judgment of infringement. *Id.* at 181–82.

The Court came to the same conclusion when it reconsidered the question on rehearing. It said: "Any use beyond the valid terms of a license is, of course, an infringement of a patent." 305 U.S. at 126. Moreover, "[t]hat a restrictive license is legal seems clear." *Id.* at 127 (citing *Mitchell*). The use restriction was a lawful one, the Court observed, and "[a]s the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted to Transformer Company." *Id.* General Talking Pictures, knowing of the restriction, was "liable because it ha[d] used the invention without license to do so." *Id.* Thus, General Talking Pictures was held to be liable for patent infringement. It was not held liable for breach of contract; indeed, it had no contractual relationship with the patentees.

b. The Supreme Court thus held that a patentee can preserve its patent rights by authorizing a manufacturing licensee to make and sell a patented article under an otherwise-proper restriction, including a restriction on the buyer's post-purchase use. When the buyer, knowing of the restriction at the time of purchase, subsequently uses the article in violation of the restriction, the buyer is infringing.

To distinguish the present patentee-sale situation, the government must contend that a patentee cannot preserve its patent rights against uses of a patented article contrary to known use restrictions if, instead of licensing someone else to make and sell

the article, it chooses to make and sell the article itself. That contention would draw a sharp line between practicing-entity patentees (those who themselves make and sell the articles at issue) and non-practicing-entity patentees (those who do not). Non-practicing-entities would have greater power to maintain their patent rights than practicing entities.

The government points to no basis in the policy of the patent statute for making that distinction. Nothing in the patent statute suggests that patentees should have to contract out their manufacture and sale of patented articles to preserve their § 271 rights. The essential tradeoff of the patent system—to provide a market-based reward in exchange for disclosure—is equally applicable whether the patentee sells or licenses another to make and sell. The Federal Trade Commission made the fundamental point as follows: "A patentee can obtain a financial reward for its patent by producing a product that incorporates the invention or by transferring the technology through a patent license or sale to a manufacturer who develops and produces a product. The market reward earned by the patentee in either case will depend upon the extent to which consumers prefer the patented invention over alternatives and prior technology, which helps determine the invention's economic value." *See* Fed. Trade Comm'n, The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition 139 (2011) (footnote attached to "market reward" states: "The 'market reward' defined here is the amount the patentee could have earned by either selling a patented product or licensing the patented technology in the absence of infringement."). The distinction urged on us appears to be unjustifiably formalistic, not founded in rele-

vant economic substance. *Mallinckrodt*, 976 F.2d at 705.

The proposed distinction would also introduce practical problems. Where would the line be drawn along the spectrum from original patentees to assignees (*e.g.*, regional assignees) to exclusive licensees (exclusivity being possible as to some but not all of the § 154 rights) to nonexclusive licensees? As we already have noted, patent law makes those distinctions for purposes of identifying who may bring infringement actions, but the distinctions are sometimes difficult to pin down and dependent on detailed inquiries into contractual provisions. When purchasing a patented article from a particular seller under specified restrictions that are not independently improper, how is the buyer to know where the seller falls along the spectrum—and, hence, whether the buyer may ignore the restrictions without fear of patent infringement?

c. The government advances a doctrinal defense of the patentee-sale/licensee-sale distinction on which it rests its challenge to *Mallinckrodt*. The government begins its argument on the *Mallinckrodt* issue by first noting the absence of statutory text supporting its position and then turning, in the next sentence, to a passage from *Bloomer* v. *McQuewan* to supply a foundation for its argument. U.S. Br. 5. It asserts that "[t]his distinction stems from the fact that licensees exercise a portion of the patentee's rights." *Id.* at 8 (citing *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) at 549–50). But that key distinction is wrong as a matter of basic patent law, misreads *Bloomer* v. *McQuewan*, and cannot distinguish *General Talking Pictures* from this case. A mere nonexclusive licensee, as in *General Talking Pictures*,

possesses no portion of the rights granted by Congress in the patent.

Patent rights are only rights to exclude, not rights to practice. *See* 5 Chisum § 16.02[1]. Among the "clearly established principles" of patent law, as the Supreme Court described them in *Crown Die & Tool Co.*, are that "the government did not confer on the patentee the right himself to make, use or vend his own invention" and "in its essence all that the government conferred by the patent was the right to exclude others from making, using or vending his invention." 261 U.S. at 35; *see Bauer*, 229 U.S. at 10 ("The right to make, use, and sell an invented article is not derived from the patent law. . . . The [patent statute] secured to the inventor the *exclusive* right to make, use, and vend the thing patented, and consequently to prevent others from exercising like privileges without the consent of the patentee."); *Continental Paper Bag*, 210 U.S. at 425; *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) at 549 ("The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent."); *Western Elec. Co.* v. *Pacent Reproducer Corp.*, 42 F.2d 116, 118 (2d Cir. 1930); *see also Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("long-settled view that the essence of a patent grant is the right to exclude others from profiting by the patented invention"). It is for that reason, for example, that a patentee may be prevented from practicing its own patent by another's patent. *See Cantrell*, 117 U.S. at 694; *Blake*, 94 U.S. at 733; *Smith*, 88 U.S. (21 Wall.) at 118–19.

A patentee exercises its congressionally granted rights only when it invokes its power to exclude oth-

ers, not when it sells its product. Similarly, the congressionally granted right to exclude may be viewed as being shared by certain *exclusive* licensees, who, in appropriate circumstances (*e.g.*, with joinder of the patent owner), may bring infringement actions against others to enforce exclusivity. *See Independent Wireless*, 269 U.S. at 464–69 (discussing cases); 8 Chisum § 21.03[2]. But an exclusive licensee, in merely selling (or making, using, etc.) a patented article, is not exercising any power conferred by the patent statute. That is *a fortiori* true of a non-exclusive licensee, like the licensee in *General Talking Pictures*, which has no exclusivity protections at all. Thus, although the government's assertion that "licensees stand in patentees' shoes" in sharing certain patent-granted rights is true in a significant respect as to *exclusive* licensees, U.S. Br. 8, it is not true as to non-exclusive licensees—like the licensee in *General Talking Pictures*. Accordingly, a patentee's ability to preserve its patent rights (rights to exclude) by arranging for sales to be made by a non-exclusive licensee, like the Transformer Company, cannot rest on a premise that "licensees exercise a portion of the patentee's rights." U.S. Br. 8.

Bloomer v. *McQuewan*, on which the government relies from the outset of its argument, U.S. Br. 5, does not say otherwise. The government states that in *Bloomer* v. *McQuewan* "the Court explained that a purchaser of a patented article 'stands on different ground' than *one who obtains a license* under the patent," because the latter " 'obtains a share in the monopoly . . . derived from, and exercised under' the patent." *Id.* (emphasis added) (quoting *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) at 549). But the Court did not say that about simply "one who obtains a license," like the licensee in *General Talking Pictures*.

What the Court said in *Bloomer* v. *McQuewan*—immediately after the sentences stating that the patent gives the patentee only "the right to exclude"—is that "when [the patentee] sells the *exclusive* privilege of making or vending [the invention] for use in a particular place," the privilege ends with the patent that creates it. 55 U.S. (14 How.) at 549 (emphasis added). That statement is about the *exclusivity* right, *i.e.*, the right to exclude others, which an assignee or exclusive licensee obtains in whole or in part. By its terms, and consistent with the just-stated definition of the limited nature of the patent franchise, it says nothing about a non-exclusive licensee obtaining a share in the monopoly. The Court then contrasted, as "stand[ing] on different ground," one who simply buys a patented device, which "[t]he inventor might lawfully sell to him, whether he had a patent or not, if no other patentee stood in his way." *Id.* The buyer, as mere owner and user of the device, lacks any patent-granted right to exclude, *i.e.*, "exercises no rights created by the act of Congress," so whatever rights it has do not end with the patent's expiration. *Id.* The distinction was not between a sale from a patentee and a sale from a bare (non-exclusive) licensee. In short, *General Talking Pictures* cannot be distinguished on the doctrinal basis the government invokes.

d. No Supreme Court decision compels adoption of the distinction the government urges. As Impression noted at oral argument, it is undisputed that no Supreme Court decision has involved a single-use/no-resale restriction on a patentee's sale and found the restriction insufficient to preserve the patentee's infringement rights against a buyer engaging in the forbidden reuse or resale. More generally, no Supreme Court precedent denies a patentee the ability

to preserve its § 271 rights, by a clear communication of an otherwise-permissible restriction, when it sells the patented article itself, just as the patentee may do, under the *General Talking Pictures* principle, when contracting out the making and selling of the patented article.

We have already noted the limitations on what was presented and decided in the *Bloomer* cases (rejecting implied temporal use restrictions) and *Adams* (rejecting implied geographic use restrictions). In 1881, the Supreme Court summarized the relevant law: "The right of the owner of a patented machine, *without any conditions attached to his ownership*, to continue the use of his machine during an extended term of the patent, is well settled." *In re Paper-Bag Cases*, 105 U.S. at 770–71 (emphasis added) (citing *Bloomer* v. *McQuewan*, *Mitchell*, *Adams*, and *Chaffee* v. *Boston Belting Co.*, 63 U.S. (22 How.) 217 (1859)). In so stating the law, in terms that tied exhaustion to the absence of conditions, the *Paper-Bag Cases* Court cited at least one case, *Adams*, involving a sale made by an assignee (a patentee under patent law).[10]

The Court in *Hobbie* v. *Jennison*, 149 U.S. 355 (1893), described and followed the holding of *Adams* that, when an assignee sold machines, "there was no restriction on their use *to be implied*, for the benefit of the patentee or his assignees or licensees." 149 U.S. at 362 (emphasis added). The Court held that an unrestricted sale of pipe in Michigan by the Mich-

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[10] In *Chaffee*, which involved Goodyear's rubber patents, the Supreme Court rejected the defendants' invocation of the *Bloomer* principle, again in a term-extension context, explaining that there was no evidence that the defendants had ever received any authority to practice the patented invention. 63 U.S. (22 How.) at 222–24.

igan assignee (Jennison's firm), with full rights to sell it, allowed the buyer to use it in Connecticut free of the patent rights belonging to the Connecticut assignee (Hobbie).

In its 1895 decision in *Keeler*, the Court applied its existing precedents, especially *Adams* and *Hobbie*. The Massachusetts assignee (Standard Folding-Bed) sued Keeler when he bought patented beds from the Michigan assignee, subject to no restrictions, and brought them to Massachusetts for sale. 157 U.S. at 660 (stating facts before opinion starts). The Court noted that in *Adams* the patented articles "were sold to [Burke] without condition or restriction," *id.* at 663, and it concluded that *Adams* "was applicable," *id.* at 665. The Court also quoted as defining the law (in this patentee-sale case) the passage set out above from *Mitchell* (a licensee-sale case). *Id.* at 663. In any event, with no restriction on the sale present, the Court followed *Adams*' refusal to find one implied by the patent law.

It was against that background that the Court then noted: "Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us," but "such a question would arise as a question of contract, and not as one under the *inherent* meaning and effect of the patent laws." *Id.* at 666 (emphasis added). That language lends itself to use in the government's argument that sale restrictions never preserve *patent* rights, but give only contract rights. But even in *Keeler* the language does not compel that reading, and the later decisional law—most importantly, *General Talking Pictures*—undermines the contract-only interpretation.

Thus, in *Keeler* itself, the word "inherent" naturally ties the language to the modest point based on *Adams* that actually decided *Keeler*: with no contract restriction as part of the sale, an implied one cannot be found in patent law itself. That says nothing about the irrelevance of an actual contract restriction to preservation of patent rights. Moreover, in the licensee-sale context, *General Talking Pictures* establishes that contract restrictions can indeed preserve a patentee's infringement rights and are not merely enforceable under contract law: General Talking Pictures, which had no contract with the patentees, was held liable for patent infringement, not breach of any contract with the patentees. Notably, then, in *Quanta*, a licensee-sale case like *General Talking Pictures*, the Court quoted the language from *Keeler* after discussing *General Talking Pictures* (without a hint of disapproval) and concluding that, as in *Keeler*, *Adams*, and *Hobbie*, there simply was no patentee-imposed contractual restriction applicable to the sales at issue. 553 U.S. at 637 n.7. And in the present case, as in *General Talking Pictures*, there is no reason to think that the patentee has a contract remedy available as a substitute for patent infringement: as far as the record before us shows, Lexmark has no contractual relationship with Impression.

In *United States* v. *General Electric Co.*, 272 U.S. 476 (1926), the Supreme Court rejected the government's antitrust challenge to (among other things) General Electric's licensing of Westinghouse to make and sell patented lamps under terms controlling resale prices. *See Fed. Trade Comm'n* v. *Actavis, Inc.*, 133 S. Ct. 2223, 2232 (2013) (describing *General Electric*). In making a general point about patentee sales (not involved in the case), the Court said: "It is well settled, as already said, that where a patentee

makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights." 272 U.S. at 489 (citing cases). We read that language to deem "settled" only what was settled in the cited precedents—a patentee's sales *without restrictions* exhaust patent rights in the item sold. The cited cases are *Adams*, *Bloomer* v. *McQuewan*, *Hobbie*, *Keeler*, and *Mitchell*. They do not go beyond that proposition.

The prominent exhaustion decisions from the 1910s do not make the patentee-sale/licensee-sale distinction urged by the government here. After *A.B. Dick* adopted a broad principle that preserved a patentee's patent-law rights against restriction-violating sale, use, etc., even if the restrictions were otherwise unlawful—in *A.B. Dick*, a tie-in requiring purchase of unpatented products—the Supreme Court repudiated *A.B. Dick*'s broad principle and held particular restrictions improper and therefore not effective at preserving patent rights against actions contrary to those restrictions. It did so as to tie-ins in *Motion Picture Patents*, overruling *A.B. Dick* and relying on the 1914 Clayton Act, 38 Stat. 730. *See* 243 U.S. at 517. And it did so as to resale price maintenance in *Bauer*, *Straus*, and finally *Boston Store*, relying on the judicially adopted per se antitrust condemnation of that practice in *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911), *overruled by Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877 (2007). *See Bauer*, 229 U.S. at 12; *Straus*, 243 U.S. at 498; *Boston Store*, 246 U.S. at 21. But the Court did not rule that *all* restrictions on a patentee's sale were ineffective to preserve the patentee's patent-law rights. Instead, it called for an inquiry—in accord with what

Mallinckrodt later said—into whether a patentee's restrictions were otherwise improper, as by "extend[ing] the scope of its patent monopoly." *Motion Picture Patents*, 243 U.S. at 516. And the Court did not adopt the line the government suggests between patentee sales and licensee sales.

In its 1942 decision in *Univis*, the Supreme Court rejected a patent-based defense to the government's antitrust challenge to resale-price-maintenance restrictions in the licensing and selling of eyeglass lenses. The Court said that it had two questions before it: first, whether the restrictions were "excluded by the patent monopoly from the operation of the Sherman Act," *i.e.*, whether *if* the restrictions were illegal under the Sherman Act, they were saved by the patent law; and second, whether the restrictions were illegal under the Sherman Act. 316 U.S. at 243. The Court said no on the first question, *id.* at 249–52, and yes on the second, *id.* at 252–54.

The second answer (regarding the substance of antitrust law) is immaterial here, and the first answer is in accord with *Mallinckrodt*'s ruling—which expressly recognizes that, as *Univis* held, restrictions that are otherwise unlawful do not preserve patent rights. Moreover, although some language in *Univis*, like language in other decisions in the area, can be taken out of context and read as going beyond the specific restrictions involved, *id.* at 249–51, the most the Court ruled, even as to patent law all by itself, was that a vertical price-control restriction was ineffective to preserve patent rights after sales of articles embodying the patents. While *Univis* is controlling on what it decided on the issues before it, we do not think it appropriate to give broad effect to language in *Univis*, taken out of context, to support an other-

wise-unjustified conclusion here on a question not faced there. And that is particularly so today, given that the *Univis* opinion relied in part on strongly restrictive patent-misuse decisions that were repudiated by Congress after *Univis* was decided.[11]

Most pointedly for present purposes, *Univis* does not support the distinction between patentee sales and licensee sales the government urges in this case. The *Univis* case was decided just four years after *General Talking Pictures*, which confirmed that a patentee *may* preserve its patent rights by imposing otherwise-lawful restrictions on sales by its manufacturing licensees. Yet *Univis* says nothing to limit that prominent, recent ruling. Moreover, as we have already noted, *Univis* is explicit that it made no difference to the Court's analysis whether the patentee (Univis Corporation) or the manufacturing licensee (Univis Lens Company) was doing the selling: the Court stated that the two companies "may for the purposes of this suit be treated as though they were a single corporation." 316 U.S. at 243. The Court also stated its point about the particular sale as equally

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[11] *Univis* supports some of its broader statements about loss of patent rights with citations to some of the highly restrictive patent-misuse decisions—*e.g.*, *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458 (1938); *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488 (1942); *B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942)—that were soon to culminate in the *Mercoid* decisions, *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944); *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944). In the 1952 Patent Act, Congress, by adopting § 271(d), sharply limited the patent-misuse doctrine in response to that line of authority. *See Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 204–15 (1980); Rich, *supra*, at 21. In 1988, Congress limited the patent-misuse doctrine still further. *See Illinois Tool Works*, 547 U.S. at 41–43.

applicable to a "[s]ale of a lens blank *by the patentee or by his licensee*." *Id.* at 249 (emphasis added).[12]

For the foregoing reasons, we think that the best lesson to draw from the Supreme Court's precedents, as applied to the question before us, is that a patentee may preserve its patent rights by otherwise-proper restrictions when it makes and sells patented articles itself and not only when it contracts out manufacturing and sales.

3

We see no basis for a different conclusion in Lord Coke's description in 1628 of a British common-law principle, as quoted in *Kirtsaeng*, 133 S. Ct. at 1363. Lord Coke described what British courts, in the absence of an overriding legislative prescription, would treat as an impermissible anti-alienation restriction on a seller's disposition of " 'his whole interest' " in a chattel. *Id.* Lord Coke's formulation was part of the judicial formulation of background law for personal property generally, and it neither addressed possible differences among particular kinds of personal property nor suggested that a judicial rule would override specific legislative grants. Lord Coke's formulation was a pertinent reference point in *Kirtsaeng*, because, as we have noted, the copyright statute, 17 U.S.C. § 109(a), states a rule that itself overrides the otherwise-applicable statutory bars on infringement and importation and grants of exclusive rights. In stating one common-law jurisdiction's general judicial policy at one time toward anti-alienation restrictions, Lord Coke's description confirmed that the

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[12] The government also cites *Aro II*, 377 U.S. at 497, but that case involved no issue about restrictions in the terms of authorized sales.

otherwise-supported reading of § 109(a) fit a legal tradition.

Lord Coke's quote does not purport to address the effect of a legislative prescription of broad rights to control sale and use.[13] That is what is present in the Patent Act, but not the copyright law. Sections 154(a) and 271(a) legislatively establish a patentee's rights over sale and use, without subservience to a superseding grant of rights to one who owns a particular article. They grant those rights separately as to making, selling, using, etc., thus recognizing different sticks in the bundle of rights; they grant them without an exception keyed to the patentee's prior ownership of a particular article embodying the invention; and they grant them unless, as relevant here, the patentee confers "authority." Lord Coke's quote does not address the Patent Act situation or suggest that federal courts may treat a denial of authority as a conferral of authority.

Different policy choices can readily be made and justified in this area, even as to background rules applicable to personal property generally. Some of the numerous, distinct common-law jurisdictions, including Lord Coke's, have departed at various times from the background rule expressed by Lord Coke. *See De Mattos* v. *Gibson*, (1859) 45 Eng. Rep. 108 (Ch. App.); *Waring* v. *WDAS Broad. Station, Inc.*,

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[13] Lord Coke's 1628 statement does not address the Statute of Monopolies, enacted just a few years earlier, to which American patent law has often been traced. *See Pennock* v. *Dialogue*, 27 U.S. (2 Pet.) 1, 18, 20 (1829); *J.M. Robinson & Co.* v. *Belt*, 187 U.S. 41, 47 (1902). Lord Coke did discuss the Statute of Monopolies elsewhere. *See Pennock*, 27 U.S. (2 Pet.) at 20 (citing Edward Coke, Third Part of the Institutes of the Laws of England 184 (1644)).

194 A. 631, 637–38 (Pa. 1937); *Metro. Opera Ass'n* v. *Wagner-Nichols Recorder Corp.*, 101 N.Y.S.2d 483, 494–95 (N.Y. Sup. Ct. 1950), *aff'd*, 279 A.D. 632 (N.Y. App. Div. 1951); *Pratte* v. *Balatsos*, 113 A.2d 492, 494–95 (N.H. 1955); *Nadell & Co.* v. *Grasso*, 346 P.2d 505, 509–10 (Cal. 1959); *Clairol Inc.* v. *Cosmetics Plus*, 325 A.2d 505, 508 (N.J. Sup. Ct. 1974); Zechariah Chafee, Jr., *Equitable Servitudes on Chattels*, 41 Harv. L. Rev. 945, 1007–13 (1928); Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250, 1254–56 (1956); Glen O. Robinson, *Personal Property Servitudes*, 71 U. Chi. L. Rev. 1449, 1455–60 (2004). In 1918, then-Dean Harlan Fiske Stone wrote: "The tendency in the United States has been to apply the doctrine of restrictive agreements to personal property when not regarded as an unlawful restraint of trade or in violation of public policy." *The Equitable Rights and Liabilities of Strangers to a Contract*, 18 Colum. L. Rev. 291, 310 (1918).

In any event, and more specifically, whatever considerations might go into a jurisdiction's choice as to the background rule for personal property in general, lawmaking authorities may reasonably make different choices for particular kinds of property. Notably, as to intellectual property in its various forms, Congress, implementing the Constitution, has long deemed it important to incentivize creation and disclosure through grants to the creator of rights to exclude others for a time, the duration and scope based on features of the particular kind of intellectual property (*e.g.*, patent terms are much shorter than copyright terms). The Patent Act expressly does so regarding patent rights, specifically giving separate rights to exclude others from making, using, selling, etc. That overriding legislative prescription removes

the patented-article sale from the scope of Lord Coke's 1628 description of his country's general judicially fashioned property law, as British tribunals recognized long ago. *See A.B. Dick*, 224 U.S. at 42–43 (quoting the judicial committee of the Privy Council, speaking through Lord Shaw in 1911: "the general doctrine of absolute freedom of disposal of chattels of an ordinary kind is, in the case of patented chattels, subject to the restriction that the person purchasing them, and in the knowledge of the conditions attached by the patentee, which knowledge is clearly brought home to himself at the time of sale, shall be bound by that knowledge and accept the situation of ownership subject to the limitations. These limitations are merely the respect paid and the effect given to those conditions of transfer of the patented article which the law, *laid down by statute*, gave the original patentee a power to impose.") (quoting *Nat'l Phonograph Co.* v. *Menck*, [[1911] A.C. 336, 349 (P.C. 1911 appeal taken from Aus.)]); *Incandescent Gas Co.* v. *Cantelo*, [1895] 12 R.P.C. 262, 264 (Eng.).

In short, notwithstanding Lord Coke's description of English general personal-property judge-made law, the patent-specific statutory analysis must govern here.

4

Finally, following the analytical method of *Kirtsaeng*, we consider what we can reliably gauge about the likely real-world consequences of one answer or another to the exhaustion question presented here. As indicated at the front of this opinion, we have received numerous amicus briefs making competing arguments, with varying degrees of reliable factual support, for the effect of *Mallinckrodt* on their interests or the interests they promote. We

cannot assess those contentions and make policy choices in the way Congress can. We can say only that the amicus presentations give us no reason to depart from the application of § 271 we derive from the statute and precedent.

In particular, we see no basis for predicting the extreme, lop-sided impacts the Court found plausible in *Kirtsaeng* in different circumstances. *Mallinckrodt* has been the governing case law since 1992 and has been reiterated in subsequent precedent. And yet we have been given no reliable demonstration of widespread problems not being solved in the marketplace. Given *General Talking Pictures*, the only question is about patentees' ability to do for their own sales what they already can do by contracting out their manufacturing and sales. Regarding the specific scenario we are addressing today—in which the patentee has sought to preserve its patent rights by conditioning its first sale on a single-use/no-resale restriction of which the accused infringer had adequate notice at the time of purchase—we have been given no proof of a significant problem with enforcing patent rights.

At the same time, the conduct challenged here can have benefits. Lexmark's Return Program provides customers an immediate up-front benefit: a choice between two options, one offering them a lower price in exchange for the single-use/no-resale limitation. And a company in Lexmark's position could have a plausible legitimate interest in not having strangers modify its products and introduce them into the market with the quality of modifications (including ink refills) not subject to Lexmark's control: lower quality of remanufactured cartridges could harm Lexmark's reputation. *See* Chafee, 41 Harv. L. Rev. at 946–47. A medical supplier in Mallinckrodt's

position plausibly may have similar reason to believe that reuse, when not under its own control, carries a significant risk of poor or even medically harmful performance, to the detriment of its customers and its own reputation. Such interests are hardly unrelated to the interests protected by the patent law—the interests both of those who benefit from inventions and of those who make risky investments to arrive at and commercialize inventions. *See* Robinson, 71 U. Chi. L. Rev. at 1480–1515 (surveying reasons for restrictions, particularly in intellectual-property area).

We do not have a record on such interests in this case, as Impression has not claimed that the restrictions at issue violate antitrust, patent-misuse, or similar constraints. And it is not our function to assess the strength of such interests against those which might pull the other way. Nor can we fairly assume the illegitimacy of the conduct here. Such an assumption would run counter to the large-scale changes in antitrust law and patent-misuse law, especially over the last four decades, that have displaced the strict condemnation of various vertical restrictions that characterized both areas of law in the first half of the twentieth century.

Thus, the Supreme Court broadly held that nonprice vertical restraints are to be judged by a rule of reason. *See Continental T.V., Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36, 57–59 (1977), *overruling United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967). The Court abandoned its "strong disapproval of tying arrangements" by insisting on market power in the tying product as a precondition to condemnation. *See Illinois Tool Works*, 547 U.S. at 35–38; *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2 (1984). It overturned both the per se ban on vertical

agreements setting maximum resale prices, *State Oil Co.* v. *Khan*, 522 U.S. 3, 7 (1997), *overruling Albrecht* v. *Herald Co.*, 390 U.S. 145 (1968), and the per se ban on vertical agreements setting minimum resale prices, *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 900–01 (2007), *overruling Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911).

The absence of a general basis for finding market harm from vertical restrictions is recognized specifically in the patent area, too. Field-of-use restrictions in patent licenses have long been common, as *Mallinckrodt* points out and *General Talking Pictures* shows. In 1988, building on an initial relaxation of patent-misuse standards in 1952, Congress made clear that tying arrangements involving a nonpatented product do not constitute patent misuse where the patentee lacks market power. 35 U.S.C. § 271(d)(5). The Supreme Court, citing that determination, subsequently overturned its own longstanding antitrust presumption that patent (and copyright) owners have market power. *Illinois Tool Works*, 547 U.S. at 41–42. And the two federal antitrust agencies have recognized that restrictions in intellectual-property licenses can be procompetitive. *See* U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property § 2.3 (1995) ("Field-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible.").

For those reasons, we see no basis for departing from the legal analysis set out above. A patentee already may preserve its patent rights against downstream buyers (with notice) through otherwise-lawful

restrictions, by licensing others to make and sell its patented articles. We conclude that the law does not forbid the patentee to do the same when making and selling the articles itself.

III

The second question presented to us is whether Lexmark's sales of its cartridges abroad conferred authority on its buyers, and derivatively on Impression, to import the cartridges into, and sell and use them in, the United States, which would be infringing acts in the absence of authorization. The question was decided by the district court, and is presented here, on the premise that Lexmark made the foreign sales without communicating a reservation of U.S. patent rights. And the question is presented only as an exhaustion question, because Impression did not press any implied-license defense, despite the fact that *Quanta* made clear that the doctrines are distinct.

The absence of an implied-license defense in this case sharpens the definition of the issue presented. There is no doubt that a U.S. patentee, when selling a U.S.-patented article abroad, could give the buyer permission, expressly or by implication from the circumstances, to import the purchased article into the United States and sell and use it here. Such a license would make those acts non-infringing. The question for decision is whether, if there is no proof of any such license (express or implied), there is nonetheless a legal rule that such a foreign sale confers authority on the overseas buyer to import the patented article into the United States and sell and use it here. If there is such a legal rule of authorization, the next question is whether the authorization is conclusive, effective even in the face of the U.S. pa-

tentee's reservation of U.S. rights, or only presumptive, with the U.S. patentee able to reserve its U.S. rights if it can demonstrate with adequate certainty that it has taken the steps needed to do so.

We conclude, as we did in *Jazz Photo*, that there is no legal rule that U.S. rights are waived, either conclusively or presumptively, simply by virtue of a foreign sale, either made or authorized by a U.S. patentee. The government, we note, agrees that a conclusive-exhaustion rule should be rejected but argues for a presumptive-exhaustion rule regarding a U.S. patentee's foreign sales. In the government's view, a U.S. patentee can reserve its U.S. rights when selling abroad (but not if selling domestically, under the government's view that *Mallinckrodt* is wrong). We conclude that neither a conclusive- nor a presumptive-exhaustion rule is legally justified.

A

This court's 2001 decision in *Jazz Photo* reviewed the International Trade Commission's finding that Jazz Photo (and others) infringed patents of Fuji Photo Film by importing refurbished disposable cameras originally sold by or with the authorization of Fuji Photo. 264 F.3d 1094, 1098. Two groups of cameras sold by or with the authorization of Fuji Photo were at issue: those sold initially in the United States, refurbished abroad, and imported back into the United States; and those initially sold abroad, refurbished abroad, and imported into the United States. This court drew different conclusions about infringement regarding those two groups of imported cameras.

Disagreeing with the Commission on the central issue in the case, the court held that a specifically described set of refurbishment changes (involving in-

sertion of new film into the used casings) were mere repairs, not reconstructions that amounted to creation of new articles. *Id.* at 1102–07. Therefore, the court ruled, for the "used cameras whose first sale was in the United States with the patentee's authorization," and that were subjected to only those changes (with disclosure to the Commission), Jazz Photo's importations were not infringing: repair maintained the identity of the article initially sold, and the domestic sale exhausted the patentee's rights in the article sold (but not in newly created articles). *Id.* at 1098–99, 1102–05 (discussing, for example, *Aro I*, 365 U.S. at 346); *see Bowman*, 133 S. Ct. at 1766. As to those used cameras, the court reversed the Commission. 264 F.3d at 1099.

The court held, however, that a different result was required for any of the imported cameras that previously had been "*sold only overseas*," even if the changes in them amounted only to repair. *Id.* at 1105 (emphasis added). Relying on *Boesch* v. *Graff*, 133 U.S. 697, 701–03 (1890), the court ruled that "United States patent rights are not exhausted by products of foreign provenance," *i.e.*, products previously sold only abroad. 264 F.3d at 1105. Thus, the court's non-infringement ruling (and reversal of the Commission) applied only to used cameras "for which the United States patent right has been exhausted by first sale in the United States" and whose refurbishing was limited as described. *Id.* The imported cameras not previously sold in the United States, in contrast, "are not immunized from infringement of United States patents by the nature of their refurbishment." *Id.* There is no suggestion that Jazz Photo argued that Fuji Photo had expressly or impliedly licensed importation in making or authorizing the foreign sales, and the court said nothing to foreclose

such a defense to infringement. Accordingly, as to cameras "whose prior sale was not in the United States," the court affirmed the Commission's infringement finding and remedies against Jazz Photo. *Id.* at 1111.

The court followed *Jazz Photo* in *Fuji Photo Film Co., Ltd.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1370 (Fed. Cir. 2005), which affirmed a district court's judgment of infringement by Jazz Photo (and others) in favor of Fuji Photo in litigation involving the same dispute as *Jazz Photo*. This court rejected Jazz Photo's argument for exhaustion as to first sales made abroad. The court in *Fuji Photo* explained that in *Jazz Photo* "this court expressly limited first sales under the exhaustion doctrine to those occurring within the United States." *Id.* at 1376. Accordingly, exhaustion of U.S. rights is not triggered by "[t]he patentee's authorization of an international first sale." *Id.* In *Fuji Photo*, as in *Jazz Photo*, the court did not foreclose any argument about express or implied licenses conferred in particular foreign sales.

In short, this court has held since 2001 that the foreign sale of a U.S.-patented article, when the sale is either made or authorized by the U.S. patentee, does not, standing alone, confer on the buyer "authority" to import the item into the United States or to sell and use it here, and so does not save those acts from being infringing under § 271(a). *See Ninestar Tech. Co.* v. *Int'l Trade Comm'n*, 667 F.3d 1373, 1378 (Fed. Cir. 2012).[14] The court has not cur-

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[14] In *Ninestar*, this court rejected the argument that *Quanta*, 553 U.S. at 632 n.6, upset *Jazz Photo*. *Quanta*'s footnote 6 does not address or decide whether a foreign sale can trigger exhaustion. It makes a different point, stated in the textual assertion the footnote supports: "LGE has suggested no reasonable use

tailed the ability of an accused infringer to show that the patentee conferred such authority by words or implications. Exhaustion cannot rest on a foreign first sale, but an express or implied license might be found based on the circumstances of particular foreign sales.

B

The Supreme Court's decision in *Kirtsaeng* does not undermine the no-exhaustion conclusion of *Jazz Photo*. In *Kirtsaeng*, the Court interpreted § 109(a) of the Copyright Act, which states that "the owner of a particular copy . . . lawfully made under this title . . . is entitled, without the authority of the copyright

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for the Intel Products other than incorporating them into computer systems that practice the LGE Patents." *Id.* at 632. That assertion applies the Court's standard for when an article not covered by a patent nevertheless embodies the patent. Footnote 6 responds to footnote 10 in LGE's brief, Brief for Respondent 21–22 n.10, *Quanta* (No. 06-937), 2007 WL 4244683, which does not rely on a foreign sale of the Intel Products, but argues that the (first-sale) Intel Products do not embody the patents because they have substantial non-infringing uses, namely, wholly foreign making, selling, and using of computers covered by the patents. *Quanta*'s footnote 6 responds that such foreign acts with those computers "would still be *practicing* the patent, even if not infringing it," which is what counts for the "embody" inquiry. 553 U.S. at 632 n.6.

Neither in footnote 6 nor elsewhere does *Quanta* refer to LGE's final footnote, Brief for Respondent 53 n.19, in which LGE cited *Boesch*, suggested that Intel's sales *might* have been made abroad, and said that this was an open question for remand. Quanta replied that LGE had waived any foreign-sale-location contention, so that reversal, not remand, was required. Reply Brief for Petitioners 3 n.2, *Quanta* (No. 06-937), 2007 WL 4613423. The Court evidently agreed with Quanta. Without discussing *Boesch* or any issue about foreign-sale exhaustion law, the Court reversed, holding that "LGE can no longer assert its patent rights against Quanta." 553 U.S. at 638.

owner, to sell or otherwise dispose of the possession of that copy . . . ." 17 U.S.C. § 109(a). The Court held that § 109(a)'s guarantee is not limited to copies manufactured in the United States, but applies regardless of the place of manufacture, as long as the maker of the copies had permission from the copyright owner to make them. *Kirtsaeng*, 133 S. Ct. at 1355–71.

For various reasons, that ruling does not answer the question presented under the Patent Act. *Kirtsaeng* says nothing about patent law; and it does not address, even in the context of copyright law, the exhaustion question presented by the Patent Act. Whether a sale constitutes a grant to a buyer of (conclusive or presumptive) "authority" to engage in otherwise-prohibited acts of importation, sale, and use is the question here. It is not the question presented by the Copyright Act. That Act contains no right to exclude anyone from "use," and § 109(a) of the Act expressly overrides the copyright holder's rights to exclude from importing or selling copies, permitting acts "without the authority" of the rights owner—in circumstances that undisputedly have nothing to do with the place of sale. The Court in *Kirtsaeng* merely interpreted § 109(a) and resolved the dispute about whether the place of manufacture matters under § 109(a), holding—for a number of reasons "taken together"—that it does not. 133 S. Ct. at 1358, 1371. The *Kirtsaeng* question thus is several steps removed from the question presented under the Patent Act, which requires a quite different analysis.

To elaborate: In *Kirtsaeng*, the Supreme Court did not advert to the foreign-exhaustion issue under patent law. Nor did it cite, even to distinguish, its own leading case on exhaustion and foreign sales in the patent area, namely, *Boesch*—which has no coun-

terpart in the copyright area. More generally, the Court nowhere relied on the wealth of exhaustion cases in the patent area. The absence of such references to patent law, even at a general level, reinforces the need for a distinct patent-law analysis.

The Court has long recognized the distinctness of the copyright and patent regimes and observed that particular questions require separate analysis for each body of law. For example, the Court has noted that the patent right is broader in scope than the copyright right in at least one important respect: the patent statute gives a right to exclude others from "use," whereas the copyright statute does not. *Bauer*, 229 U.S. at 13–14. In a decision relied on in *Kirtsaeng*, 133 S. Ct. at 1363, the Court stated more generally that copyright-law conclusions and patent-law conclusions do not necessarily align, so that a conclusion about copyright law does not automatically carry over to patent law. *Bobbs-Merrill*, 210 U.S. at 345–46. In *Sony Corp. of America* v. *Universal City Studios, Inc.*, the Court, noting that patent and copyright law "are not identical twins," required "caution . . . in applying doctrine formulated in one area to the other." 464 U.S. 417, 439 n.19 (1984). In *Eldred* v. *Ashcroft*, the Court explained that "patents and copyrights do not entail the same exchange." 537 U.S. 186, 216 (2003).

The answer to a particular question therefore requires analysis of the specifics of the relevant statute. The Court in *Kirtsaeng* conducted just such an analysis for the copyright-law question before it. It analyzed a copyright-specific text, namely, § 109(a), and stressed that it was determining "the best reading of *§ 109(a)*." 133 S. Ct. at 1370 (emphasis in original). *See id.* at 1371 ("we do no more here than try to determine what decision Congress has taken"); *id.* at

1357 ("We must decide whether the words 'lawfully made under this title' restrict the scope of § 109(a)'s 'first sale' doctrine geographically."). And the structure of the Court's analysis confirms the primacy of the statutory text: The Court began its analysis with an extensive consideration of the text of § 109(a). 133 S. Ct. at 1358–60. It concluded that "[t]he language of § 109(a) says nothing about geography"; reading "made under this title" to mean made with the rights holder's permission, *not* to mean made in the United States, "is simple, . . . promotes a traditional copyright objective (combatting piracy), and . . . makes word-by-word linguistic sense"; while the made-in-the-United-States interpretation "bristles with linguistic difficulties." 133 S. Ct. at 1358. The Court then found various contextual, historical, and practical considerations to support that textual conclusion. *Id.* at 1358–62.

The text construed in *Kirtsaeng* has no counterpart in the Patent Act. And that text presents a sharply different question from the statutory question presented by the Patent Act. By its terms, far from calling for a determination of whether any kind of sale constitutes the conferring of "authority" from the rights holder, § 109(a) defines the circumstances (ownership of a copy lawfully made) that, when present, give a copy owner a right to sell or dispose of the owned copy "*without* the authority of the copyright owner." 17 U.S.C. § 109(a) (emphasis added). Moreover, as we have explained, and as the Court ruled in *Kirtsaeng* and *Quality King*, the Copyright Act makes the provisions on exclusivity, infringement, and importation all subservient to § 109(a). In the Copyright Act, the § 109(a) grant to copy owners overrides other requirements of authority from the rights holder, specifically those governing importa-

tion and sale. That is not so in the Patent Act, under which exhaustion textually can be nothing but an answer to a statutory question of when a patentee has, by a sale, conferred such authority.

Section 109(a)'s language, which gives an owner an entitlement to resell "*without* the authority of the copyright owner," does not make that entitlement depend on an assessment of whether a first sale made or authorized by the copyright holder confers resale authority on the buyer. The right to resell is given to the "owner" of an article "lawfully made" under the Act. The "owner" language—whose meaning was not at issue in *Kirtsaeng*— says nothing about where ownership is acquired and does not require a prior sale at all: a copy made by the person who owns it, as long as the making was authorized, is within § 109(a)'s language. *See* 133 S. Ct. at 1361 (discussing 17 U.S.C. § 115); 2 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 8.12[B][3][c] (2015). Even when ownership comes from a sale, moreover, the provision prescribes the result for the owner's resale entitlement in terms not dependent on "authority" from the copyright holder but as independent of any such authority. And the remaining requirement stated by the language at issue in *Kirtsaeng*—"lawfully *made* under this title"—undeniably refers only to the manufacture of the copy and whether that manufacture was lawful. That language, like the "owner" language, leaves no place for consideration of the location of a prior sale (if there was one), which is the issue here.

Years before deciding *Kirtsaeng*, the Court in *Quality King* had made clear that the language of § 109(a) makes sale location irrelevant: under that language, "the owner of goods lawfully made under the Act is entitled to the protection of the first sale

doctrine in an action in a United States court even if the first sale occurred abroad." 523 U.S. at 145 n.14. The Court in *Kirtsaeng* confirmed the point. 133 S. Ct. at 1371 (noting the "holding in *Quality King* that § 109(a) is a defense in U.S. courts even when 'the first sale occurred abroad' "). Not surprisingly, neither party in *Kirtsaeng* argued that the provision could be read to refer to the sale location.[15] And the Court readily dismissed a *sale*-location view as "not defensible" and facing "linguistic and other hurdles that . . . are insurmountable." *Id.* at 1366. With sale location off the table, the dispute in *Kirtsaeng* was simply between two different interpretations of the statutory reference to *manufacture* ("lawfully made under this title")—whether it referred to *where* manufacture occurred (the "geographic" interpretation) or to whether the manufacture was *lawful* under the standards of the Copyright Act (*e.g.*, with the copyright owner's permission, as opposed to pirated). For

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[15] The Second Circuit in *Kirtsaeng* had held that § 109(a) was inapplicable whenever the copy had been *made* abroad, *John Wiley & Sons, Inc.* v. *Kirtsaeng*, 654 F.3d 210, 222 (2d Cir. 2011), and Kirtsaeng's "question presented" to the Supreme Court was "whether the copyright owner is entitled to control downstream sales just because it opts to manufacture the copies abroad." Brief for Petitioner at i, *Kirtsaeng* (No. 11-697), 2012 WL 2641850. Kirtsaeng noted once in passing that a sale-location standard "sacrifices any pretense of fidelity to the statutory text" of § 109(a). *Id.* at 25. Wiley similarly recognized that "[t]he question presented is whether copies made outside the United States are 'lawfully made under this title' within the meaning of Section 109(a)." Brief for Respondent at i, *Kirtsaeng* (No. 11-697), 2012 WL 3836936. Wiley explained that the relevance of sale location was not being argued; and it nowhere argued that the sale of the books outside the United States, as opposed to their manufacture outside the United States, defeated exhaustion. *Id.* at 37–38.

that reason, whether an "implied license" would arise from sales in some circumstances was immaterial to the statutory question being debated, and the Court did not comment on that notion, despite its mention in the dissent, 133 S. Ct. at 1389 & n.25 (Ginsburg, J., dissenting), and the government's brief, Brief for the United States as Amicus Curiae Supporting Respondent at 21, *Kirtsaeng* (No. 11-697), 2012 WL 3902599.

In short, given the nature of the question framed by § 109(a), the Court in *Kirtsaeng* did not have occasion to decide, and did not decide, whether a foreign sale (by or authorized by the U.S. rights holder) is properly treated as conferring on the buyer, conclusively or presumptively, the authority to resell. The Court did not decide, even for copyrights, the question presented here for patents.

The nature of the statutory question decided in *Kirtsaeng* also shows why the Court's discussion of considerations supporting its textual conclusion cannot be transposed to the patent-law setting at issue here. The discussion of the statutory history and certain provisions of the Copyright Act, 133 S. Ct. at 1360–62, 1370, is statute-specific. And the Court's discussion of the absence of any constitutional history or congressional action permitting market division was limited to the copyright area. *Id.* at 1370–71. *Compare* 35 U.S.C. § 261 (patentee may assign rights "to the whole or any specified part of the United States").

Similarly, the Court's discussion of Lord Coke's 1628 description of his country's general judicial personal-property law, *id.* at 1363–64, is inapplicable here. That description, as already explained, is apt background for a provision, like § 109(a), that is *su-*

perior to any legislative grant of rights that cover post-purchase activities of a buyer. The Patent Act contains no such override of the Act's grant of rights to patentees. And the Court in *Kirtsaeng* drew from Lord Coke's description only a general recognition of "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods," adding that American antitrust law recognizes a similar point. 133 S. Ct. at 1363. That observation merely confirms that the result of the § 109(a) analysis is sensible because it fits one policy found in aspects of American and British law containing no specific statutory override. And the Court then cited *Bobbs-Merrill*, which construed the pre-1909 copyright statute not to contain an override in the circumstances at issue, 210 U.S. at 349–51, and noted that the next year, Congress adopted that result by enacting the statutory predecessor of § 109(a). *Kirtsaeng*, 133 S. Ct. at 1363–64.

In addition, the Court's account of the potential real-world consequences of the statutory interpretation it was rejecting, though it mentions sale location a few times, is pervasively tied to the issue actually in dispute—whether a foreign *manufacture* location makes § 109(a) inapplicable. 133 S. Ct. at 1364–67. Under that interpretation, the Court stated, the rights holder would have "permanent" control, *id.* at 1362, "perpetual downstream control," *id.* at 1371, of copies circulating in the United States as long as those copies had been *made* abroad: § 109(a) would not kick in to give resale rights to purchasers of those copies *even if* the copyright holder sold the article in the United States. *See also id.* at 1366 (referring to "the absurd result that the copyright owner can exercise downstream control even when it authorized the import or first sale"). As the government

notes to us, the Patent Act, which lacks a provision like § 109(a), is quite different: "there is no concomitant risk of 'perpetual downstream control' over patented goods." U.S. Br. 24. At the very least, an unrestricted patentee-made or -authorized sale in the U.S. triggers exhaustion as to the article sold.

Moreover, the "copyright-related consequences" emphasized by the Court in *Kirtsaeng*, 133 S. Ct. at 1367, were to a large extent, though not entirely, tied to the distinctive problems of museums, libraries, and booksellers. *Id.* at 1364–67. To that extent, the Court's overall analysis of plausible practical effects—of an interpretation keeping every foreign-made copy forever outside § 109(a)—was copyright-specific. The Court in *Kirtsaeng* also concluded that circuit-court precedent on § 109(a) was too fractured to give meaningful comfort that the practical problems from the Court's adoption of Wiley's view of § 109(a) were unlikely to materialize. *Id.* at 1366. In contrast, our exclusive jurisdiction and clear rule since 2001, together with the pre-2001 precedents from other courts, provide considerably more reason to discount predictions that adhering to a territorial line to make exhaustion unavailable based on a foreign sale will result in serious practical problems.

For all of those reasons, *Kirtsaeng* is not controlling in this case. The patent-law issue presented here requires a separate analysis in its own legal setting.

C

The Patent Act question is whether a foreign sale of a U.S.-patented article made or authorized by a U.S. patentee, standing alone, confers on the buyer authority to import the article into the United States and sell and use it here, even though such an act would be infringing in the absence of authority. The

best answer to that question, we conclude, is that such a foreign sale does not confer such authority. A U.S. patentee, simply by making or authorizing a foreign sale of an article, does not waive its U.S. rights to exclude regarding that article, either conclusively (no matter how clear the reservation of U.S. rights) or only presumptively (subject to sufficiently clear preservation of U.S. rights).

1

The combined logic of the statutory grant of patent rights and the long-recognized basis for exhaustion leads naturally to rejecting exhaustion based on a foreign sale. The statute gives patentees the reward available from American markets. A patentee cannot reasonably be treated as receiving that reward from sales in foreign markets, and exhaustion has long been keyed to the idea that the patentee has received its U.S. reward.

Thus, what the statute expressly provides to a U.S. patentee is the reward available from the right to exclude "in the United States." *See* 35 U.S.C. §§ 154(a)(1), 271(a).[16] The reward is inherently a *market* reward: "it is one of the legal beauties of the system that what is given by the people through their government—the patent right—is valued automatically by what is given by the patentee. His *patent* has value directly related to the value of his *invention*, as determined in the marketplace." *In re Kirk*, 376 F.2d 936, 964 (CCPA 1967) (Rich, J., dis-

[16] Congress has added certain limited extensions to foreign conduct. *See* 35 U.S.C. § 271(f). Those limited extensions are not applicable here and only strengthen the essential guarantee of a U.S.-market reward.

senting).[17] And the market reward, under the statute, is explicitly the reward available from American markets subject to American laws, a reward obtained by selling or authorizing sales in those markets.

At the same time, the Supreme Court has "explained the basis for [exhaustion] doctrine" in terms of the patentee's receipt of the reward given by the statute. *Bowman*, 133 S. Ct. at 1766. " 'The purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward . . . by the sale of the article.' " *Id.* (quoting *Univis*, 316 U.S. at 251, itself citing earlier authorities). Only when it is appropriate to assume the receipt of that reward does the sale support an inference of conferral of authority on an article's buyer (in the absence of clearly communicated restrictions on the authority conferred).

Whatever other issues may be presented by determining when a patentee has "received his re-

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[17] *See Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51 (1989) ("The federal patent system thus embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years."); Fed. Trade Comm'n, Evolving IP Marketplace 138–39 ("An important benefit of the patent system, in contrast to other methods of encouraging innovation, like direct prizes, is that it allows each invention to be valued directly through a market mechanism.") (citing Kenneth W. Dam, *The Economic Underpinnings of Patent Law*, 23 J. Legal Stud. 247, 248–49 (1994); Joseph Farrell, John Hayes, Carl Shapiro & Theresa Sullivan, *Standard Setting, Patents and Hold-Up*, 74 Antitrust L.J. 603 (2007)); *see also Aro II*, 377 U.S. at 507 (patent "damages" tied to market valuation); *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641, 648 (1915) (reasonable royalty measures "the value of what was taken" by infringement, necessarily a market value).

ward," the territorial nature of the statutory guarantee supplies a simple, strong reason to exclude foreign sales. The guarantee is the reward from sales in American markets, not from sales in foreign markets. A sale in a foreign market therefore does not furnish "the basis for" exhaustion— even for a presumption that authority is being conferred on the buyer to exploit the article in American markets by the actions (importation, sale, use, etc.) that are infringing in the absence of patentee-conferred authority.

American markets differ substantially from markets in many other countries, and not just because of disparities in wealth that can lead to dramatically different prices (especially for low-marginal-cost products). Government policies differ dramatically, including policies on price regulation and, most particularly, policies on the availability and scope of patent protection. Patents involve costly government-approval processes, and the standards vary.[18] The government explains:

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[18] *See, e.g.*, Robert Patrick Merges & John Fitzgerald Duffy, Patent Law and Policy: Cases and Materials 55 (5th ed. 2011); Graeme B. Dinwoodie, William O. Hennessey, & Shira Perlmutter, International and Comparative Patent Law § 2.03 at 53–54 (2002); John Gladstone Mills III, *A Transnational Patent Convention for the Acquisition and Enforcement of International Patent Rights*, 88 J. Pat. & Trademark Off. Soc'y 958, 958–59 (2006); Margaret A. Boulware, Jeffrey A. Pyle, & Frank C. Turner, *An Overview of Intellectual Property Rights Abroad*, 16 Hous. J. Int'l L. 441, 458–59 (1994).

A few dollar figures provide some context. For a U.S. patent, the minimum application fee is $2,560 (covering only the basic filing, search, examination, and issue fees). *See USPTO Fee Schedule*, U.S. Patent & Trademark Office, http://www.uspto.gov/learning-and-resources/fees-and-payment/

> The independence of national patent systems... is one of the defining principles of the international legal regime governing the protection of inventions. The United States has ratified the Paris Convention for the Protection of Industrial Property, originally adopted more than a century ago, which specifically provided in Article 4*bis* that "Patents applied for in the different contracting States... shall be independent of the patents obtained for the same invention in the other States...." 32 Stat. 1936 (Aug. 25, 1902). While international agreements facilitate the ability of inventors in one country to seek patent protection in others, the patents laws of each country are *not* reciprocal in their protections for particular inventions. As every patent attorney knows, the United States may issue a patent while another country denies protection for the same invention, or approves claims significantly different in scope.

U.S. Br. 15–16.

Copyrights are different. They generally spring into being without any government approval, and standards hardly vary compared to patenting standards. As the government says, "patent law is different from copyright law, under which authors auto-

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uspto-fee-schedule. As for lawyers' charges for preparing and prosecuting a patent application, a 2015 report indicated that the median charge to prepare a minimally complex utility patent application is $7,000, with responses to Office Actions ranging from $2,000 to $3,200 each. Am. Intellectual Prop. Law Ass'n, Report of the Economic Survey 29 (2015). For an example of filing fees for patents abroad, see European Patent Office, *Schedule of Fees*, http://www.epoline.org/myepoline_eofp_portletapp-2.8.3/fees/pdf?language=en.

matically 'enjoy copyright protection in nations across the globe' pursuant to the Berne Convention for the Protection of Literary and Artistic Works." U.S. Br. 16 (quoting *Golan* v. *Holder*, 132 S. Ct. 873, 878 (2012)); *see Golan*, 132 S. Ct. at 878 (referring to "Berne's 164 member states").[19] And there is no reason to think that the costs of copyright registration (not even a prerequisite to all copyright protection) are generally comparable to those of securing patent protection.[20]

Given the varying standards, and the separate examination processes and fees, a U.S. patentee may choose not even to seek patent protection in particular foreign countries. And those seeking protection may not obtain it, or may not obtain protection comparable to that of the U.S. patent. In either event, foreign sales in such circumstances may not occur under protections likely to produce market returns comparable to the reward contemplated by our patent law. Such country-to-country differences in patent law, moreover, are only part of the likely differ-

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[19] It has been noted that, as a matter of statutory text, "of the three principal forms of [federally protected] intellectual property [copyright, patent, trademark], patent rights are the most explicitly territorial." Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 Va. J. Int'l L. 603, 605 (1997); *see* Dinwoodie *et al.*, § 1.03 at 30.

[20] The application fee for a U.S. copyright registration is $35. *Fees*, U.S. Copyright Office, http://copyright.gov/about/fees.html. The same 2015 Survey that gives a median charge of $7,000 for legal services for preparing a minimally complex patent application (before the back-and-forth of prosecution occurs) gives a figure of $400 for services to prepare an application for a copyright registration. Am. Intellectual Prop. Law Ass'n, Report at 29.

ences affecting foreign sales, supplementing differences in economic circumstances and in governments' price and other non-patent regulations bearing on sales.

For those reasons, a foreign sale, standing alone, is not reasonably viewed as providing the U.S. patentee the reward guaranteed by U.S. patent law. Such a sale is not reasonably viewed as itself a waiver by the patentee of its U.S. patent rights to prevent the buyer or others from bringing that article into the United States and selling or using it to satisfy a U.S.-market demand that the patentee could otherwise help satisfy at U.S.-market prices, as guaranteed by the Patent Act.

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The only Supreme Court decision directly addressing the effect of a foreign sale on U.S. patent rights is the 1890 decision in *Boesch* v. *Graff*, 133 U.S. 697. Albert Graff and J.F. Donnell, by assignments, held an 1883 U.S. patent on certain lamp burners. Without their permission, Emile Boesch and Martin Bauer sold patent-covered burners in the United States. Boesch and Bauer had bought those burners from a supplier in Germany, without permission from the holders of the rights under German patents (dated 1879–1880), which had been issued to the same individuals as the U.S. patent. The German supplier was authorized to make the sale to Boesch and Bauer, not by the German patentees, but by a German law that allowed continuation of certain preparatory activities that began before the application for the German patents was filed. 133 U.S. at 698–99, 701–02. When Graff and Donnell sued Boesch and Bauer for infringement, the single-judge circuit court for the Northern District of California

found infringement, and the Supreme Court affirmed that holding. *Id.*

The Court rejected Boesch and Bauer's defense that they "could not be held for infringement, because they purchased the burners in Germany from a person having the right to sell them there, though not a licensee under the German patents." *Id.* at 699. The Court stated "the exact question presented [a]s whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent." *Id.* at 702. In answering the question, the Court recited the then-leading decisions on domestic exhaustion, culminating in *Adams*, which, the Court observed, held that, within the confines of the United States, the courts would not add an unexpressed territorial limit to the rights conferred by an unrestricted sale by a regional assignee. *Id.* at 703. The Court then concluded that the cross-border situation was different. Its full rationale was as follows:

> The right which [the German seller] had to make and sell the burners in Germany was allowed him under the laws of that country, and purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent. A prior foreign patent operates under our law to limit the duration of the subsequent patent here, but that is all. The sale of articles in the United States under a United States patent cannot be controlled by foreign laws.

Id.

That rationale by its terms does not make relevant whether the foreign sale was made under a foreign patent. Indeed, the second sentence says that a "prior foreign patent" does not cause loss of U.S. patent rights. Rather, the rationale turns only on the fact that the foreign sale was made under foreign law.[21] The last sentence states the territorial principle: "The sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Id.*

That principle does not preclude an accused infringer from establishing that the U.S. patentee actually gave it a license, expressly or by implication. It means that the exhaustion doctrine does not treat a foreign sale, lawful abroad for whatever reason, as having the cross-border legal effect of authorizing otherwise-infringing U.S. acts involving the purchased article. And that is how the principle has been understood by the Supreme Court. *See Keeler*, 157 U.S. at 664–65 ("The exact question presented was whether a dealer residing in the United States could purchase in another country articles patented there from a person authorized there to sell them, and import them to and sell them in the United States without the license or consent of the owners of the United States patent, and the court held that the sale of articles in the United States under a United States patent cannot be controlled by foreign laws. In this case neither the patentee nor any assignee had ever received any royalty or given any license to use

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[21] The "duration" language refers to a sentence in Rev. Stat. 4887 that tied certain U.S. patents' expiration dates to those of related foreign patents. *See* Robinson, § 337, at 461. Congress deleted the provision in 1897. Act of Mar. 3, 1897, ch. 391, § 3, 29 Stat. 693; *see* H.R. Rep. No. 1923, at 38 (1952).

the patented article in any part of the United States."); *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689, 692 (1923) (trademark case, explaining: "Ownership of [particular] goods . . . does not necessarily carry the right to sell them at all in a given place. If the goods were patented in the United States a dealer who lawfully bought similar goods abroad from one who had a right to make and sell them there could not sell them in the United States. *Boesch* . . . .").

The principle of *Boesch*, precluding foreign control of U.S. rights, has a mirror-image counterpart in the territoriality principle of U.S. patent law that broadly denies projection of U.S. patent rights to cover foreign conduct. In *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183 (1857), the Supreme Court, referring to the patent statutes, said that "these acts of Congress do not, and were not intended to, operate beyond the limits of the United States." *Id.* at 195. The Court also explained the guaranteed reward from domestic markets: the patent laws "secure to the inventor a just remuneration from those who derive a profit or advantage, within the United States, from his genius and mental labors." *Id.*; *see, e.g.*, *Dowagiac*, 235 U.S. at 650 ("The right conferred by a patent under our law is confined to the United States and its territories (Rev. Stat. § 4884, Comp. Stat. 1913, § 9428), and infringement of this right cannot be predicated of acts wholly done in a foreign country.").

The Supreme Court relied on the strength of the territorial principle in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972), which rejected a claim of infringement against Deepsouth just because the ultimate combination covered by the patent was made abroad, after Deepsouth shipped all

the parts from the United States. The Court explained:

> Our patent system makes no claim to extraterritorial effect; "these acts of Congress do not, and were not intended to, operate beyond the limits of the United States," *Brown* v. *Duchesne*, 19 How., at 195 (1856), and we correspondingly reject the claims of others to such control over our markets. *Cf. Boesch* v. *Graff*, 133 U.S. 697, 703 (1890).

406 U.S. at 531.

In *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437 (2007), the Supreme Court quoted the foregoing passage from *Deepsouth* as support for "[t]he traditional understanding that our patent law 'operate[s] only domestically and do[es] not extend to foreign activities,' . . . [which] is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States. 35 U.S.C. § 154(a)(1) (patentee's rights over invention apply to manufacture, use, or sale 'throughout the United States' and to importation 'into the United States')." *Id.* at 455. And the Court added:

> As a principle of general application, moreover, we have stated that courts should "assume that legislators take account of the legitimate sovereign interests of other nations when they write American laws." *F. Hoffmann-La Roche Ltd.* v. *Empagran S. A.*, 542 U.S. 155, 164 (2004); see *EEOC* v. *Arabian American Oil Co.*, 499 U.S. 244, 248 (1991). Thus, the United States accurately conveyed in this case: "Foreign conduct is [generally] the domain of foreign law," *and in the area here involved, in particular, foreign*

> *law "may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions."* Brief for United States as *Amicus Curiae* 28.

Id. (emphasis added). The Court then applied the presumption of congressional respect for territorial limits in patent law to interpret the very provision, § 271(f), that Congress had enacted (in 1984) to supersede *Deepsouth*, explaining that the presumption "remains instructive in determining the *extent* of the statutory exception" to the strict territorial limits elsewhere stated in the statute. *Id.* at 456.

The principles thus expressed, perhaps especially the sentence highlighted in the quote just above, recognize what we noted above: Patent law is especially territorial, and laws vary considerably from country to country. The Supreme Court's recognition of those points reinforces our conclusion that foreign markets are not the predictable equivalent of the American markets in which the U.S. patentee is given a right to exclude and the rewards from that exclusivity. The Court's closest patent-law precedents thus support our holding that sales in foreign markets should not be presumed to confer on the buyer authority to displace sales in American markets.

3

Congress has not enacted a general provision of the Patent Act specifically addressed to foreign-sale exhaustion of U.S. patent rights. Congress has left the general issue to judicial resolution.

When the subject arose in the Uruguay round of multilateral negotiations that led to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the parties agreed not to address the

subject, stating, in article 6, that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." TRIPS, Apr. 15, 1994, 33 I.L.M. 1197, 1200, quoted in *Kirtsaeng*, 133 S. Ct. at 1383 (Ginsburg, J., dissenting). And when Congress implemented the international agreement through the 1994 legislation that (among other things) added the new importation ban to § 271(a), the accompanying Statement of Administrative Action—which Congress deemed authoritative, 19 U.S.C. § 3512(d)—stated that "[t]he Agreement . . . does not affect U.S. law or practice relating to parallel importation of products protected by intellectual property rights." H.R. Rep. No. 103-316, at 633, 981 (1994), *reprinted in* 1994 U.S.C.C.A.N. 4040, 4280. The recent Trans Pacific Partnership agreement includes a similar disclaimer, reserving the parties' rights to make other international agreements on the subject. *See* Trans-Pacific Partnership art. 18.11 & n.8, Oct. 5, 2015, https://ustr.gov/trade-agreements/free-trade-agreements/ trans-pacific-partnership/tpp-full-text.

Congress did act in three specific instances formally to guarantee a U.S. patentee the right to retain its U.S. rights despite selling abroad. Congress so provided through legislation, adopted by both houses and signed by the President, that approved three international agreements. United States-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, 118 Stat. 1103 (2004);[22] United

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[22] Article 15.9.4 of the U.S.-Morocco agreements says: "Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory." A footnote attached to the provi-

States-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-286, 118 Stat. 919 (2004);[23] United States-Singapore Free Trade Agreement Implementation Act, Pub. L. No. 108-78, 117 Stat. 948 (2003).[24] In doing so, Congress did not provide the promised rights other than through the existing Patent Act provisions of §§ 154, 271.

Those congressionally approved guarantees would be negated if Impression's view of the Patent Act were adopted: U.S. patentees would lose their U.S. patent rights by selling abroad. An interpreta-

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sion adds: "A Party may limit application of this paragraph to cases where the patent owner has placed restrictions on importation by contract or other means." United States-Morocco Free Trade Agreement, Morocco-U.S., June 15, 2004, 44 I.L.M. 544 (2005).

[23] Article 17.9.4 of the U.S.-Australia agreement says: "Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from a patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory, at least where the patentee has placed restrictions on importation by contract or other means." United States-Australia Free Trade Agreement, Aus.-U.S., May 18, 2004, KAV 6422 (2005).

[24] Article 16.7.2 of the U.S.-Singapore agreement says: "Each Party shall provide a cause of action to prevent or redress the procurement of a patented pharmaceutical product, without the authorization of the patent owner, by a party who knows or has reason to know that such product is or has been distributed in breach of a contract between the right holder and a licensee, regardless of whether such breach occurs in or outside its territory." A footnote attached to that sentence adds: "A Party may limit such cause of action to cases where the product has been sold or distributed only outside the Party's territory before its procurement inside the Party's territory." United States-Singapore Free Trade Agreement, Sing.-U.S., May 6, 2003, 42 I.L.M. 1026 (2003).

tion of a statute that produces such a contradiction with other enactments is to be avoided, at least where other considerations already point against such an interpretation. *See FDA* v. *Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 143 (2000); *Vimar Seguros y Reaseguros, S.A.* v. *M/V Sky Reefer*, 515 U.S. 528, 539 (1995); *W. Va. Univ. Hosps., Inc.* v. *Casey*, 499 U.S. 83, 100 (1991). The three congressional enactments thus provide a further reason to reject Impression's view. At the same time, they leave to our internal law—the Patent Act, as judicially interpreted—whether even a presumptive-exhaustion rule governs. The agreements say nothing to undermine our reasons for rejecting a presumptive-exhaustion rule.

The only other legislative enactment presented for our consideration is 21 U.S.C. § 381(d)(1)–(2). Paragraph (1) of that subsection states a general rule that "no drug subject to section 353(b) of this title [concerning prescription-necessitating drugs] or composed wholly or partly of insulin which is manufactured in a State and exported may be imported into the United States unless the drug is imported by the manufacturer of the drug." The general rule is subject to one exception, stated in paragraph (1), for certain prescription drugs imported by pharmacists and wholesalers from Canada, as regulated under 21 U.S.C. § 384. And it is subject to a second exception stated in paragraph (2), which authorizes the Secretary of Health and Human Services to permit importation otherwise within the paragraph (1) ban "if the drug is required for emergency medical care." 21 U.S.C. § 381(d)(2).

That provision does not alter our conclusion. The provision does not purport to limit patentees' rights regarding importations under 35 U.S.C. §§ 154, 271.

It adds an express government-enforced ban on certain importations, and it makes certain exceptions to the added ban, authorizing the Secretary to allow certain importations. Perhaps where the Secretary does so, an injunctive remedy might be unavailable to the patentee under 35 U.S.C. § 283, for public-interest reasons. *See eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388 (2006). But nothing in 21 U.S.C. § 381(d) makes non-infringing any conduct that otherwise would be infringing.

Congress may modify patentees' rights under the Patent Act. It may do so with respect to particular articles, without modifying the general exhaustion rule for foreign sales under the Patent Act—though § 381(d) does not do even that. Or it may more generally prescribe a general exhaustion rule for patented articles, specifying the conditions for exhaustion, as it did in the Copyright Act for copyrighted works. But it has not done that either.

4

Our no-exhaustion conclusion—which leaves undisturbed the availability of an express- or implied-license defense to infringement—is broadly consistent with the decisions of courts other than the Supreme Court, with the apparent exception of a trial-court decision that predates *Boesch*.

The pre-*Boesch* decision is *Holiday* v. *Mattheson*, 24 F. 185 (C.C.S.D.N.Y. 1885), in which few facts are set out. The defendants bought some U.S.-patented article in England from "a vendee of the patentee," "without restriction or conditions." *Id.* at 185. The court denied the patentee's motion for a preliminary injunction against U.S. activities involving the article. It reasoned that, whether or not an article is patented, "[w]hen the owner sells an article without

any reservation respecting its use, or the title which is to pass," "[t]he presumption arising from such a sale is that the vendor intends to part with all his rights in the thing sold"; and a patentee-seller "parts with his monopoly" as to that article—"unless by the conditions of the bargain the monopoly right is impressed upon the thing purchased," *i.e.*, unless "the owner of a patent sells the patented article under circumstances which imply that the purchaser is not to acquire an unqualified property in the thing purchased." *Id.* at 185–86. That description, with its emphasis on the absence or presence of patentee-conveyed restrictions on post-purchase use, is taken entirely from domestic exhaustion law. The court said nothing to recognize that a distinct issue is presented when the sale was made abroad; and the opinion, describing few facts, does not make clear even indirectly if the circumstances would have given rise to an implied-license defense. In any event, just a few years after the trial-court decision in *Holiday*, the Supreme Court in *Boesch* made clear how much the crossing of international boundaries matters.

After *Boesch*, the Second Circuit in *Dickerson* v. *Matheson*, 57 F. 524 (2d Cir. 1893), affirmed a finding of infringement against Matheson & Co., which had acquired from a German seller in 1887, and brought into the United States for sale and use here, batches of a coloring agent that was subject to a U.S. patent and a German patent, both assigned to the Bayer Company. The German seller (the Berlin Company) was a licensee of the Bayer Company, with the right to sell both in Europe and the United States, and it made clear that importation into the United States was prohibited. *Id.* at 525–26. In the suit brought by Dickerson, to whom the Bayer Com-

pany assigned the U.S. patent in 1888, the Second Circuit rejected Matheson's defense to infringement. It read *Boesch* to establish that "[a] purchaser in a foreign country of an article patented in that country and also in the United States, from a licensee under the foreign patent only, does not give the purchaser a right to import the article into, and to sell it in, the United States, without the license or consent of the owner of the United States patent." *Id.* at 527.

The Eighth Circuit reached a similar result in *Dickerson* v. *Tinling*, 84 F. 192 (8th Cir. 1897), involving Bayer & Co.'s phenacetine product. The court noted that "it appears that no patent [on the product] had ever been issued in Germany" and that "every package of phenacetine that had ever been sold by Bayer & Co. in a foreign country had a prohibition against its importation into and sale within the United States printed upon it, and was sold subject to that prohibition." *Id.* at 193. It was unclear whether Tinling bought the phenacetine at issue from Bayer & Co. (or its vendees) or from "others," but it did not matter to the outcome. *Id.* at 194. "If he bought it of others than Bayer & Co. or their vendees, he bought with it no right to sell it in the United States, because no one but Bayer & Co. and their vendees had that right in this country." *Id.* "On the other hand, if [Tinling] bought the phenacetine he is selling in a foreign country from Bayer & Co., or from its vendees, subject to the express condition that it should not be imported into the United States, or sold within their limits, the exclusive right to sell the patented article within the United States which was granted to Bayer & Co. by the patent was not abridged by that purchase." *Id.*

The Eighth Circuit pointedly noted that it did not have to decide what the result would be if no re-

strictions attended a sale made or approved by Bayer. It said: "Conceding—but not deciding—that one who buys a patented article without restriction in a foreign country from the owner of the United States patent" is clear of the U.S. patent for domestic sale and use, *id.* at 195 (citing *Holiday* and *Matheson*), "there can be no doubt that a patentee has the same right and power to sell the patented article upon conditions or with restrictions that he has to sell it at all," *id.* With Bayer having "sold on the express condition that [the phenacetine] should not be imported into or sold within the United States," Tinling's domestic sale of the purchased product was infringing. *Id.* The Eighth Circuit thus reversed the trial court's denial of an injunction and ordered an injunction to issue. *Id.*

The Second Circuit likewise reversed the denial of infringement relief in *Daimler Manufacturing Co.* v. *Conklin*, 170 F. 70 (2d Cir. 1909). The U.S. holder of certain automobile-component patents (Daimler) sought to enjoin the use in the United States of a vehicle containing such components. Conklin had bought the vehicle in Europe, under no restrictions as to importation into or use within the United States, from a company licensed to sell it in Europe by the holder of European patent rights—a company *distinct from* the U.S. patent-holding company, though with common origins and some overlapping ownership involving the inventor Maybach, *see Daimler Manufacturing Co.* v. *Conklin*, 160 F. 679 (C.C.S.D.N.Y. 1908). The Second Circuit, based on *Boesch*, concluded: "The use of articles covered by a United States patent within the United States can no more be controlled by foreign law than the sale can. The sale by a German patentee of a patented article may take it out of the monopoly of the German

patent, but how can it take it out of the monopoly of the American patentee who has not sold?" 170 F. at 72.

In 1920, the Second Circuit affirmed the denial of relief where it was clear from the circumstances that the U.S. patentee had granted permission for otherwise-infringing U.S. activities with airplanes bought in Canada. *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71 (2d Cir. 1920). Curtiss was the holder of U.S. patents on various airplane-engine technologies. During World War I, an 83-percent-owned Canadian subsidiary of Curtiss (which the court treated as indistinguishable from Curtiss) granted a license—covering its Canadian patents and applications and any further inventions it owned or controlled involving changes to the engines at issue—to an entity created by the British government, authorizing the latter to make airplanes for sale to and use by the British government. *Id.* at 72–74. The British government bought planes during the war and, after the war ended, sold some of them to United Aircraft, which brought them into the United States for sale and use here. *Id.* at 72, 74. When Curtiss sued, the dispute was over whether "the authorization to make was general and unrestricted or subject to qualification and conditions, as to the disposition of the planes by the British government." *Id.* at 77; *id.* at 75.

The Second Circuit, agreeing with the district court, concluded that the authorization gave the British government freedom from U.S. patent constraints on what it could do with the planes. The court relied on "the very nature of things" and "the language used in the agreements." *Id.* at 75. It explained that "[a]n aeroplane has been said to be the most mobile article manufactured, and it is not con-

fined by geographical boundaries," *id.*; that the British had used airplanes in numerous countries during the war, *id.*; and that "the aviation fields in Texas and in other states were placed at the disposal of the British authorities and were actually used by them as training fields for Canadian aviators," *id.* It concluded: "[Curtiss] and the British government alike understood and intended that the aeroplanes to be manufactured by that government as well as those to be supplied to it by [Curtiss] were to become the absolute property of the government, and were to be disposed of as the latter should see fit. The express language of the contract is that the aeroplanes and other articles should 'become and be the absolute property of the British government.'" *Id.*

Some decisions of district courts from decades later round out the picture of case law predating *Jazz Photo*. Judge Lord rejected an exhaustion defense in *Griffin* v. *Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283 (E.D. Pa. 1978). Griffin was the owner of the U.S. patent, as well as Italian patents, covering certain machinery. Keystone bought several machines in Italy from Griffin's exclusive licensee in Italy and brought them into the United States, one for use, two for sale. Griffin sued Keystone for infringement, and Keystone sought summary judgment based on exhaustion. Judge Lord rejected the defense.

He read *Boesch* to apply, because in *Boesch* "[t]he source of the alleged infringer's authorization under foreign law . . . was without significance in the Court's reasoning." *Id.* at 1285. Therefore, it did not matter whether Griffin "owned concurrent United States and Italian patents and had entered into analogous licensing agreements concerning the same inventions," giving Griffin a share of royalties from

the Italian and American exclusive licensees. *Id.* "[T]he basic thrust of the *Boesch* decision" was "that the 'sale of articles in the United States under a United States patent cannot be controlled by foreign laws.'" *Id.* at 1286 (quoting 133 U.S. at 703).

In *Sanofi, S.A.* v. *Med-Tech Veterinarian Products, Inc.*, 565 F. Supp. 931 (D.N.J. 1983), Judge Sarokin denied a preliminary injunction to U.S. patentee Sanofi, S.A., but granted one to U.S. exclusive licensee American Home Products. A Sanofi subsidiary in France sold to an American processor certain pharmaceutical products covered by Sanofi's U.S. patent; the subsidiary "placed no restrictions in the sales contract," and Sanofi had no French patent. *Id.* at 938; *see also id.* at 934–35. When the buyer brought the products to the United States for sale, both Sanofi and American Home Products sued.

The court concluded first that "if *Sanofi* were permitted to impose restrictions upon the resale of its patented product, the expectations of the purchaser would be defeated." *Id.* at 938 (emphasis added). "[W]here the owner of a patent exhibits conduct from which one dealing with him may properly infer that the owner consents to his use of the patent, an implied license will arise." *Id.* at 940 (citing *De Forest Radio*, 273 U.S. at 241). But a different conclusion was required as to American Home Products, the U.S. exclusive licensee, the court reasoned, which did not cede its patent rights. "Because the purchaser is under an obligation to inquire of the seller as to the existence of any outstanding licenses, the purchaser cannot claim that his expectations have been frustrated if he fails to make the necessary inquiry and later discovers that an outstanding license interferes with his right of enjoyment." *Id.* "If the court were to hold that Sanofi's sale of the product ex-

hausted the patent, it would be crediting Sanofi with greater rights than the patentee actually had. Sanofi had no right to allow its product to enter this country without the permission of its exclusive licensee." *Id.* at 941.[25]

All of the foregoing decisions after *Boesch* reflect both (a) the *Boesch* principle that foreign laws do not control domestic patent rights and (b) some assessment of the particular circumstances and language of foreign sales to determine if the U.S. patentee gave permission for importation. The pre-*Boesch* decision in *Holiday* aside, the results accord with the *Jazz Photo* no-exhaustion rule coupled with the availability of a defense based on an express or implied license. That combination of principles, supported in the statute and Supreme Court doctrine, provides a clear doctrinal statement that fits the pre-*Jazz Photo* case law from outside the Supreme Court.

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Finally, we consider what we can reliably gauge about the likely real-world consequences of one answer or another to the exhaustion question presented here. As on the first issue before us, the amicus briefs filed here present competing arguments about the effect of one foreign-sale exhaustion rule or another on their interests and the interests they promote, offering varying amounts of empirical support. Such arguments necessarily play a much more limited role for us than they might for Congress. As on the first issue, all that we can conclude is that we see

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[25] *See also Kabushiki Kaisha Hattori Seiko* v. *Refac Tech. Dev. Corp.*, 690 F. Supp. 1339 (S.D.N.Y. 1988) (interpreting settlement agreement to bar patentee Refac from suing purchasers of goods from Hattori).

no basis for altering the conclusion we think warranted by the legal sources already considered.

a. We have not been shown that substantial problems have arisen with the clear rule of *Jazz Photo*, which has been in place since 2001, or with the comparable legal understandings based on a century of case law in the area. There is, of course, the possibility—noted by the Dissent at 27, citing amici's assertions—of unintended infringement by buyers of goods in foreign countries who bring them into the United States, whether to use them as components in new goods they make, to sell them, or to use them as consumers. But that possibility is limited by the availability of an implied-license defense from the circumstances of a sale (perhaps, *e.g.*, an unrestricted patentee sale at a seaport or airport to a buyer loading or boarding a vessel or plane bound for the United States). In addition, a large share of such possible unintended infringement, according to the most common policy complaint by electronics-industry amici, is by definition immaterial to any exhaustion—namely, infringement of patents asserted by *non-practicing entities* that have neither made nor authorized the sale of patent-covered articles. The only scenario relevant to exhaustion is one involving patentee-made or -authorized foreign sales, and we simply have no reliable evidence that the possibility of unintended infringement in that scenario is actually a significant issue in practice. The absence of such evidence in the many years since *Jazz Photo*, and the still longer period since *Boesch*, provides good reason to think otherwise.

Indeed, it has long been a feature of the patent-law landscape that there can be instances of innocent infringement, because § 271(a) sets a "strict-liability" standard. *Commil USA, LLC* v. *Cisco Systems, Inc.*,

135 S. Ct. 1920, 1926 (2015). Thus, even domestic purchasers of products from domestic sellers who have not obtained authority from the owners of patents covering the products' components could find themselves in that position. But Congress has left strict liability in place, even in light of the scenario not relevant to exhaustion, *i.e.*, patent infringement claimed by non-practicing-entity patentees that have neither made nor authorized the sales at issue. In any event, despite the law in place since *Jazz Photo* and for decades earlier, there is no reason to think that this is a distinctive problem for *foreign*-purchased goods, much less a problem affecting a meaningful share of foreign sales leading to imports.

In this respect, we have no reason to think that the most serious real-world problems described in *Kirtsaeng* carry over to the patent arena. Prominent among the problems in *Kirtsaeng* were those that would be faced, under the rejected interpretation of § 109(a), by libraries, museums, and bookshops. Those entities often would be dealing on a regular basis with changing inventories of large numbers of individually distinct long-shelf-life works subject to copyrights that have multiple owners and that last for periods far longer than the terms of patents (and variable with the life of the authors). *See Eldred*, 537 U.S. at 194–96 (describing copyright terms). And there was good reason to think that they built up "deeply embedded" reliance interests in the absence of clear law pointing against § 109(a)'s applicability just because a work was made abroad. *Kirtsaeng*, 133 S. Ct. at 1366. If there is a counterpart to such situations in the patent arena, it has not been shown to loom large in the full range of circumstances governed by the answer to the question of foreign-sale-exhaustion.

b. Overturning *Jazz Photo* would plausibly cause significant disruption of existing practices adopted under the contrary law established by *Jazz Photo* and decades of prior case law. Such disruption is most likely if exhaustion of U.S. rights were held to follow from a foreign sale without the U.S. patentee having the ability to reserve its U.S. rights. While a conclusive-exhaustion rule is opposed by the government, it is the rule urged by Impression and certain amici that stress the possibility of unintended infringement we have just discussed.

An example of likely disruption involves pharmaceutical products. There seems to be no dispute that U.S.-patented medicines are often sold outside the United States at substantially lower prices than those charged here and, also, that the practice could be disrupted by the increased arbitrage opportunities that would come from deeming U.S. rights eliminated by a foreign sale made or authorized by the U.S. patentee.[26] One official recognition of both the fact of low prices abroad and the linkage of such prices to territorial resale protection appears in a 2003 World Trade Organization decision made with the agree-

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[26] *See, e.g.*, Mattias Ganslandt & Keith E. Maskus, *Parallel Imports and the Pricing of Pharmaceutical Products: Evidence from the European Union*, 23 J. of Health Econ. 1035, 1036 (2004) (discussing WTO General Council, Implementation of paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health, Aug. 30, 2003, www.wto.org/english/tratop_e/trips_e/implem_para6_e.htm); Mainak Mazumdar & Dyuti S. Banerjee, *On Price Discrimination, Parallel Trade and the Availability of Patented Drugs in Developing Countries*, 32 Int'l Rev. L. & Econ. 188, 189–93 (2012); Daniel Jacob Hemel & Lisa Larrimore Ouellette, *Trade and Tradeoffs: The Case of International Patent Exhaustion*, 115 Colum. L. Rev. Sidebar (forthcoming 2016), http://ssrn.com/abstract=2667338.

ment of the United States. The WTO there waived certain TRIPS patent-recognition provisions in order to allow certain countries to import generic versions of needed medicines. The WTO took care, however, to condition the waiver on agreement by the importing countries "to control re-exportation of drugs they import in this fashion." Ganslandt & Maskus, at 1036 (discussing WTO General Council, Implementation of paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health, Aug. 30, 2003, www.wto.org/english/tratop_e/trips_e/implem_para6_e.htm). Reversing *Jazz Photo* and replacing it with a conclusive-exhaustion rule would likely upset such established practices.

c. A presumptive-exhaustion rule, subject to some kind of preservation of U.S. rights by the U.S. patentee when making or authorizing a foreign sale, would be less consequential. After all, to try to negate a potential implied-license defense, U.S. patentees would have an incentive to make express reservations of U.S. rights in making or authorizing foreign sales, simply to make clear that no license was being conferred. But even for the U.S. patentees that recognize the incentive and try to act on it, whether there is a presumptive loss of U.S. rights makes a difference. In particular, it makes a difference—though we cannot say just how significant—who has the burden of proof on the issue: must the patentee prove a reservation (communicated to the accused infringer) to avoid exhaustion, or must the accused infringer prove a license?

A U.S. patentee that wishes to reserve its U.S. rights may not be able to do so. For a foreign sale, the required reservation is an act in a foreign country. And the foreign sovereign, or local governments in the country, may prohibit sellers from stating res-

ervations of rights that would make importation into and sale in the United States more difficult.

A presumptive-exhaustion rule would place a U.S. patentee's preservation of U.S. rights within foreign sovereign control. For doctrinal reasons already emphasized, we should avoid attributing to Congress such a ceding of control over domestic rights to foreign sovereigns without clearer reason than we have seen here. The Supreme Court's final statement of its rationale in *Boesch* says as much: "The sale of articles in the United States under a United States patent cannot be controlled by foreign laws." 133 U.S. at 703. Indeed, such foreign control of U.S. rights is a mirror image of projecting U.S. patent rights into foreign sovereigns' territories. The Supreme Court has long recognized that the latter is strongly disfavored in reading the Patent Act. *See* pages 79–81, *supra*. And since *Boesch*, the Court has twice recognized the symmetric impropriety of reading the Patent Act to allow projection of foreign sovereigns' decisions to control rights in U.S. territory: "Our patent system makes no claim to extraterritorial effect; 'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States,' *Brown* v. *Duchesne*, 19 How., at 195; and we correspondingly reject the claims of others to such control over our markets. Cf. *Boesch* v. *Graff*, 133 U.S. 697, 703 (1890)." *Deepsouth*, 406 U.S. at 531; *see Microsoft*, 550 U.S. at 455.

In practical terms, moreover, there is a plausible problem with adopting a presumptive-exhaustion rule, compared to leaving the matter to express- or implied-license doctrine. Intermediary companies between the foreign purchase and the importation into the United States may be created that make it difficult for the U.S. patentee to carry an affirmative

burden of proving adequate notice of reservations attached to a foreign-sold article. Once the article leaves the hands of the initial seller (the U.S. patentee or its authorized seller), the U.S. patentee seems likely to have limited knowledge about the movement of the article to U.S. markets, through what may be multiple hands. On the other hand, if the burden is on the U.S. importer/seller to establish a conferral of authority, as it is under the express- or implied-license doctrine, there would be incentives to communicate a conferral of authority reliably throughout the chain of custody on the way to the U.S. importer and seller. That is because the latter, at the end of supply chain, would have the incentive to insist on ultimately receiving such information in order to establish the license defense.

A related point may be made about the reasonable expectations of a potential U.S. reseller of goods acquired abroad in sales made or authorized by a U.S. patentee. As to the reseller's freedom from the patentee's U.S. rights, the difference between a rule leaving the matter to the reseller's affirmative proof of a license (express or implied) and a rule of presumptive exhaustion (subject to disproof by the U.S. patentee) is significant just when there are genuine uncertainties about whether a license could be established. But in that situation the reseller is not entitled to a strong expectation that it has permission to conduct its otherwise-infringing activities in the United States.

CONCLUSION

We hold that, when a patentee sells a patented article under otherwise-proper restrictions on resale and reuse communicated to the buyer at the time of sale, the patentee does not confer authority on the

buyer to engage in the prohibited resale or reuse. The patentee does not exhaust its § 271 rights to charge the buyer who engages in those acts—or downstream buyers having knowledge of the restrictions—with infringement. We also hold that a foreign sale of a U.S.-patented article, when made by or with the approval of the U.S. patentee, does not exhaust the patentee's U.S. patent rights in the article sold, even when no reservation of rights accompanies the sale. Loss of U.S. patent rights based on a foreign sale remains a matter of express or implied license.

Under our first holding, we reverse the district court's judgment of non-infringement as to the Return Cartridges first sold in the United States. Under our second holding, we affirm the district court's judgment of infringement as to the cartridges first sold abroad. The case is remanded for entry of a judgment of infringement for Lexmark and for any further proceedings necessary upon entry of such judgment.

Costs awarded to Lexmark.

AFFIRMED IN PART, REVERSED IN PART, AND REMANDED

United States Court of Appeals for the Federal Circuit

LEXMARK INTERNATIONAL, INC.,
Plaintiff-Cross-Appellant

v.

IMPRESSION PRODUCTS, INC.,
Defendant-Appellant

QUALITY CARTRIDGES, INC., JOHN DOES, 1-20, BLUE TRADING LLC, EXPRINT INTERNATIONAL, INC., LD PRODUCTS, INC., PRINTRONIC CORPORATION, TESEN DEVELOPMENT (HONG KONG) CO. LTD., BENIGNO ADEVA AND HIS COMPANIES,
Defendants

2014-1617, 2014-1619

Appeals from the United States District Court for the Southern District of Ohio in No. 1:10-cv-00564-MRB, Judge Michael R. Barrett.

DYK, *Circuit Judge*, dissenting, with whom *Circuit Judge* HUGHES joins.

I respectfully dissent from the majority's holding that *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), and *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), remain good law. First, I agree with the government that *Mallinckrodt* was wrong when decided, and in any event cannot be reconciled with the Supreme Court's recent decision in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617 (2008). We

exceed our role as a subordinate court by declining to follow the explicit domestic exhaustion rule announced by the Supreme Court.

Second, I would retain *Jazz Photo* insofar as it holds that a foreign sale does not in all circumstances lead to exhaustion of United States patent rights. But, in my view, a foreign sale does result in exhaustion if an authorized seller has not explicitly reserved the United States patent rights.

I. DOMESTIC EXHAUSTION

A

Both here and in *Mallinckrodt* the patentee itself sold the patented item to the purchaser. In *Mallinckrodt*, "the device [was] manufactured by [the patent owner], who [sold] it to hospitals as a unitary kit." 976 F.2d at 702. Here, as the majority recognizes, "Lexmark sells its cartridges . . . directly to end users, and [] to 'resellers' (including wholesalers, dealers, and distributors)." Maj. Op. at 11. Lexmark's sales of so-called "Return Program Cartridges" were subject to a single-use/no-resale restriction that barred the purchaser from reusing the cartridge, or transferring a used cartridge to anyone besides Lexmark. *See* Maj. Op. at 10 & n.1. Those sales were authorized by the patent holder and transferred title to the purchaser.

Beginning in the 1850s, the Supreme Court recognized that such authorized sales exhaust the patentee's patent rights in the items sold. The patentee's right to exclude under the Patent Act expires with an authorized sale. The question of whether the seller has "authorized" the buyer to use or resell the item is simply irrelevant. The Court's language is unequivocal:

- "[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress. . . . Contracts in relation to it are regulated by the laws of the State, and are subject to State jurisdiction."

  Bloomer v. *McQuewan*, 55 U.S. 539, 549–50 (1852).

- "[W]hen [patentees] have made and vended to others to be used one or more of the things patented, . . . they have parted with their exclusive right. . . . By a valid sale and purchase the patented machine becomes the private individual property of the purchaser, and is no longer specially protected by the laws of the United States, but by the laws of the State in which it is situated. . . . [I]f a person legally acquires a title to that which is the subject of letters patent, . . . he may repair it or improve upon it as he pleases, in the same manner as if dealing with property of any other kind."

  Bloomer v. *Millinger*, 68 U.S. 340, 350–52 (1863).

- "[W]hen [the patented article] rightfully passes from the patentee to the purchaser, [it] ceases to be within the limits of the monopoly."

  Mitchell v. *Hawley*, 83 U.S. 544, 548 (1872).

- "The true ground on which [*McQuewan*, *Millinger*, and *Mitchell*] rest is that the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time. . . . [I]t is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

  Adams v. *Burke*, 84 U.S. 453, 455–56 (1873).

- "[W]hen the patentee . . . sells a machine or instrument whose sole value is in its use, he receives the consideration for its use, and parts with the right to restrict that use . . . . [I]t is open to the use of the purchaser, without further restriction on account of the monopoly of the patentee...."

  Hobbie v. *Jennison*, 149 U.S. 355, 361–62 (1893).

- "[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place."

  Keeler v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895).

- "[B]y virtue of the patent law one who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to

use keep under the patent monopoly a subject to which the monopoly no longer applied."

Bos. Store of Chi. v. *Am. Graphophone Co.*, 246 U.S. 8, 25 (1918).

- "[W]here a patentee makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights."

  United States v. *Gen. Elec. Co.*, 272 U.S. 476, 489 (1926).

- "The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."

  United States v. *Univis Lens Co.*, 316 U.S. 241, 252 (1942).

Thus, by the mid-1850s and continuing for the next century, even before *Quanta*, the Supreme Court repeatedly held that the authorized sale of a patented article exhausted all of the patentee's patent rights in that article, and freed the article from any restrictions on use or sale based on the patent laws. Post-sale restrictions were enforceable only as a matter of state contract law.[1]

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[1] *See, e.g.*, *Keeler*, 157 U.S. at 666 ("Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, *and not as one*

B

The sole Supreme Court case to depart from that principle, *Henry* v. *A.B. Dick* Co., 224 U.S. 1 (1912), was explicitly overruled five years later by *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917). *See Quanta*, 553 U.S. at 625–26. In *Henry* v. *A.B. Dick Co.*, the A.B. Dick Company sold a rotary mimeograph, and affixed to it a restriction stating that it could only be used with stencil paper, ink, and other supplies made by the patentee. 224 U.S. at 11. The Supreme Court in *A.B. Dick* upheld that restriction, and, more broadly, held that

> [t]he property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose. The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted if the sale be unconditional. But if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded.

Id. at 24–25 (emphasis added). The Court reasoned, in part, that the patent owner's "larger right" of excluding all others from using the patent "embraces the lesser of permitting others to use upon such terms as the patentee chooses to prescribe." *Id.* at 35.

The holding of *A.B. Dick*, that a patent owner has the right to impose post-sale restrictions under

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under the inherent meaning and effect of the patent laws.") (emphasis added); *see also Quanta*, 553 U.S. at 637 n.7.

the patent law, provided the purchaser has sufficient "notice that he buys with only a qualified right of use," *id.* at 26, is the same as the panel's holding in *Mallinckrodt* and the majority's holding in this case.

A.B. Dick was quickly overruled in *Motion Picture Patents*, 243 U.S. at 518, which stands as compelling authority against the majority's conclusion.[2] There, the licensee-manufacturer sold film projectors subject to an attached notice restricting their use to unpatented films made by the Motion Pictures Patents Company, and other restrictions "not stated in the notice, but which are to be fixed, after sale." *Id.* at 505–09. When a purchaser used the projector to display films made by another company, the Motion Picture Patents Company sued for infringement. *Id.* at 508. The question was whether the restrictions were enforceable after the sale. The Court rejected the basic rationale of *A.B. Dick* that, since the "patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it," *id.* at 514, and concluded that *A.B. Dick* "must be regarded as over-

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[2] Even before *Motion Picture Patents*, the Court had declined to follow *A.B. Dick*. The Court had held that a packaging notice that set a minimum retail price for a patented tonic, *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1, 8 (1913), and a purported "License Notice" that operated to fix the price at which phonographs could be resold, *Straus* v. *Victor Talking Mach. Co.*, 243 U.S. 490, 500–501 (1917), were not enforceable under the patent laws. In *Straus*, the Court stated that courts "would be perversely blind if they failed to look through such an attempt as [the] 'License Notice' thus plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest." *Id.*

ruled," *id.* at 518. Instead, the Court reaffirmed that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put on it." *Id.* at 516.

The majority attempts to distinguish *Motion Picture Patents*, on the ground that it only "held particular restrictions improper . . . relying on the 1914 Clayton Act," but "did not rule that *all* restrictions on a patentee's sale were ineffective to preserve the patentee's patent-law rights." Maj. Op. at 50. That is not accurate. *Motion Picture Patents* did not leave behind the remnants of *A.B. Dick*—minus tie-ins and resale price maintenance. To the contrary, the Court in *Motion Picture Patents* found that "[t]he patent law furnishes no warrant for" the restrictions imposed by the patent owner. 243 U.S. at 516. The passage of the Clayton Act only "confirmed" the Patent Act holding reached in *Motion Picture Patents*. *Id.* at 517.

In later cases, the Court characterized *Motion Picture Patents* as having broadly settled the ineffectiveness of all post-sale restrictions under the patent law. In *Boston Store of Chicago* v. *American Graphophone Co.*, *Motion Picture Patents* was viewed as "concern[ing] whether the monopoly of the patent law can be extended beyond the scope of that law or, in other words, *applied to articles after they have gone beyond its reach*." 246 U.S. at 26 (emphasis added). The Court stated that *Motion Picture Patents* accordingly settled "the general question of the power of the patentee to sell and yet under the guise of license or otherwise to put restrictions which in substance were repugnant to the rights which necessarily arose from the sale which was made." *Id.* at 24.

Resting on patent exhaustion principles, *Motion Picture Patents* "decided that as *by virtue of the patent law* one who had sold a patented machine and received the price, and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied." *Id.* at 25 (emphasis added).

In *Quanta*, the Court reiterated the broad patent exhaustion rule and left no room for a resurrection of *A.B. Dick*. LG Electronics ("LG") owned system and method patents related to computer technology. *Quanta*, 553 U.S. at 621–22. LG licensed Intel to manufacture microprocessors and chipsets that used the LG patents. *Id.* at 623. The licensing agreement stipulated that no license was given to Intel's customers to combine the licensed Intel products with non-Intel components in ways that practiced the LG patents. *Id.* A separate master agreement required Intel to provide a notice to its customers that they were not licensed to practice the LG patents by combining Intel products with non-Intel products. *Id.* at 623–24. Quanta purchased microprocessors and chipsets covered by the LG patents from Intel but combined them with non-Intel products to manufacture computers. LG filed suit against Quanta for patent infringement. *Id.* at 624.

The Court found that the Intel products embodied the LG patents and that Intel had authority to sell its products to Quanta. *Id.* at 635, 636–37. It then expansively held that "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638. Significantly, *Quanta* described *Motion Picture Patents* as having

"reiterated the rule that 'the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.'" 553 U.S. at 626 (quoting *Motion Picture Patents*, 243 U.S. at 516).

After *Quanta*, the Court confirmed again that the "doctrine of patent exhaustion limits a patentee's right to control what others can do with an article embodying or containing an invention. Under the doctrine, 'the initial authorized sale of a patented item terminates all patent rights to that item.'" *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013) (quoting *Quanta*, 553 U.S. at 625).[3]

The patent exhaustion doctrine, as stated by *Quanta*, admits of no exception. Authorized sales "prevent[] the patent holder from invoking patent law to control postsale use." *Quanta*, 553 U.S. at 638.

Contrary to the majority, *Quanta*'s reference to an "unconditional sale," *id.* at 626, a reference appearing as well in other exhaustion cases, can hardly

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[3] The majority relies on the fact that the Supreme Court in *Quanta* did not expressly overrule *Mallinckrodt*, as urged by both the petitioner and the government. The majority cites no authority for the proposition that the Court's failure to explicitly overrule circuit authority is an implicit endorsement of that authority. Influential commentators have viewed the Supreme Court's decision in *Quanta* as having overruled our decision in *Mallinckrodt*. *See, e.g.*, 12 Phillip A. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶2044, at 300 & 301 n.15 (3d ed. 2012) ("In its *Quanta Computer* decision the Supreme Court reaffirmed a strong version of the first-sale doctrine, striking down more relaxed Federal Circuit precedent. . . . To the extent that *Mallinckrodt* relaxed the first-sale doctrine, it was overruled by *Quanta Computer* . . . .").

be read to contradict the Court's central holding that post-sale restrictions are unenforceable under the patent laws. The language referring to "conditions" imposed on sale or "unconditional" sales is used in these cases in two different senses. On the one hand, there are cases in which such language is used to denote the existence of post-sale restrictions imposed by the patent holder. *A.B. Dick* and *Motion Picture Patents* fall into this category. *A.B. Dick* stated that exhaustion applied only if the sale was "unconditional[]," i.e., free of post-sale restrictions. 224 U.S. at 19. *Motion Picture Patents*, in overruling *A.B. Dick*, rejected the notion that a seller could impose "conditions," i.e., restrictions on post-sale use. 243 U.S. at 514–15. The use of such language in those cases refutes the majority's theory, since *Motion Picture Patents* holds that conditions (i.e., restrictions) are not permissible under the patent laws.

In the few other cases that use the "unconditional sales" language, the reference to an "unconditional" sale is to a sale in which title passes, not to a sale in which no restrictions are imposed.[4] The contemporaneous understanding of "conditional sale" was as a security device, i.e., an "agreement to sell upon a condition to be performed." *Harkness* v. *Russell*, 118 U.S. 663, 665 (1886); *see also Motion Picture Patents*, 243 U.S. at 520–21 (Holmes, J., dissenting) ("[A] conditional sale retaining the title until a future

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[4] *Mitchell* stated that "where the sale is absolute, and without any conditions, the rule is well settled that" the patentee's rights are exhausted. 83 U.S. at 548; *see also Motion Picture Patents*, 243 U.S. at 516; *In re Paper Bag Cases*, 105 U.S. 766, 770–71 (1881) ("The right of the owner of a patented machine, without any conditions attached to his ownership, to continue the use of his machine during an extended term of the patent, is well settled.").

event after delivery has been decided to be lawful again and again by this court.").[5]

That the use of the term "unconditional" in those cases is not referring to a sale without restrictions is crystal clear from *Quanta* itself, where the Court stated that *Motion Picture Patents* "reiterated the rule that 'the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.'" 553 U.S. at 626 (quoting *Motion Picture Patents*, 243 U.S. at 516). In other words, a sale with restrictions could nonetheless be an "unconditional" sale in which title passes, with the restrictions invalid under the patent laws because of exhaustion.

C

The rule articulated in the Supreme Court's cases is consistent with the common law rule against restraints on the use or alienation of chattels, which formed the background of the patent statute. In *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), the Court noted, in the context of copyright law, that the "'first sale' doctrine is a common law doctrine" traceable to "the common law's refusal to permit restraints on the alienation of chattels." The Court cited Lord Coke's 17th century observation that

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[5] *See also* 1 Grant Gilmore, *Security Interests in Personal Property* § 3.7, at 81 (1965) ("For most lawyers the term ['conditional sale'] came to have a reasonably precise meaning: a purchase money security transaction, subject in most states to statute, in which title to the goods was retained by the seller or his assignee until the full purchase price had been paid, usually in periodic installments.").

> [If] a man be possessed of . . . a horse, or of any other chattel . . . and give or sell his whole interest . . . therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest . . . is out of him, so as he hath no possibilit[y] of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man....

Id. (quoting 1 Edward Coke, *Institutes of the Laws of England* § 360, at 223 (1628)). *Kirtsaeng* concluded that "[a] law that permits a copyright holder to control the resale or other disposition of a chattel once sold is similarly 'against Trade and Traffi[c], and bargaining and contracting.'" 133 S. Ct. at 1363.

So too a rule permitting a patent holder to enact post-sale restraints would be contrary to the general common law. Post-sale restraints would "cast a cloud of uncertainty over every sale," *Tessera, Inc.* v. *Int'l Trade Comm'n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011). The Supreme Court has repeatedly instructed us not to ignore traditional legal principles to fashion rules "unique to patent disputes." *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006); *see also Global-Tech Appliances, Inc.* v. *SEB S.A.*, 131 S. Ct. 2060, 2069 (2011); *MedImmune, Inc.* v. *Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007). We should decline to do so here. There is no indication in the patent laws that there should be a special exception for patent holders to the general longstanding common law doctrine that promotes free competition in the resale market and certainty in commercial transactions. Allowing the patent holder to impose conditions on the sale of a patented item would indeed largely eviscerate the exhaustion doctrine, by permitting the imposition of all manner of post-sale

restrictions except for tie-ins, price-fixing, and other violations of the patent misuse and antitrust law.

D

The majority's justifications for refusing to follow Supreme Court authority establishing the exhaustion rule misconceive our role as a subordinate court.

First, the majority characterizes the statement of the exhaustion rule in the Supreme Court cases as mere dictum because in those cases there was either no restriction imposed or the restriction would otherwise violate the antitrust laws.[6] But the cases impose no such qualification on the rule announced. The Supreme Court has repeatedly advised the courts of appeals that our task is to follow the rules proclaimed by the Court, and not to attempt to distinguish Supreme Court cases on their facts. *See, e.g.*, *Rivers* v. *Roadway Express, Inc.*, 511 U.S. 298, 312 (1994) ("[O]nce the Court has spoken, it is the duty of other courts to respect that understanding of the governing rule of law."); *Thurston Motor Lines, Inc.* v. *Jordan K. Rand, Ltd.*, 460 U.S. 533, 534–35 (1983) (per curiam) (A court of appeals must not "confus[e] the factual contours of [a Supreme Court decision] for its unmistakable holding" in an effort to reach a "novel interpretation" of that decision.).

Previously we have faithfully adhered to this rule. *See Ariad Pharm., Inc.* v. *Eli Lilly & Co.*, 598 F.3d 1336, 1347 (Fed. Cir. 2010) (en banc) ("As a subordinate federal court, we may not so easily dis-

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[6] *See* Maj. Op. at 51 ("[A]lthough some language in *Univis*, like language in other decisions in the area, can be taken out of context . . . we do not think it appropriate to give broad effect to language in *Univis*, taken out of context, to support an otherwise unjustified conclusion here...").

miss [the Supreme Court's] statements as dicta but are bound to follow them."); *Stone Container Corp.* v. *United States*, 229 F.3d 1345, 1349–50 (Fed. Cir. 2000) ("[W]e do not share the Supreme Court's latitude in disregarding the language in its own prior opinions.").[7] We cannot appropriately depart from it here.

Second, the majority relies on 35 U.S.C. §§ 271(a) and 154(a)(1) to suggest that a broad reading of the exhaustion doctrine is inconsistent with statutory language making an act of infringement, *inter alia*, any use or sale of a patented invention "without authority" of the patent owner, and providing the patent owner with a "right to exclude." Maj. Op. at 19, 22–23. That reliance is misplaced. Patent exhaustion is a limit on the patentee's statutory right to control what purchasers can do with an article embodying or containing a patented invention. *See Bowman*, 133 S. Ct. at 1766 & n.2 (recognizing that patent exhaustion removes restrictions imposed by §§ 271(a) and 154(a)(1)). The focus of patent exhaustion is not

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[7] *See also Nat. Res. Def. Council, Inc.* v. *Nuclear Regulatory Comm'n*, 216 F.3d 1180, 1189 (D.C. Cir. 2000) ("[C]arefully considered language of the Supreme Court, even if technically dictum, generally must be treated as authoritative.") (quotation marks and citation omitted); *Alston* v. *Redman*, 34 F.3d 1237, 1246 (3d Cir. 1994) ("Though this passage.... is essentially dicta... we must consider it with deference, given the High Court's paramount position in our three-tier system of federal courts, and its limited docket.") (quotation marks and citation omitted); *Hendricks Cty. Rural Elec. Membership Corp.* v. *N.L.R.B.*, 627 F.2d 766, 768 n.1 (7th Cir. 1980) ("A dictum in a Supreme Court opinion may be brushed aside by the Supreme Court as dictum when the exact question is later presented, but it cannot be treated lightly by inferior federal courts until disavowed by the Supreme Court.") (citation omitted), *rev'd on other grounds*, 454 U.S. 170 (1981).

whether the *buyer* has been expressly or impliedly authorized to sell or use a product in a certain way after the sale. Instead, it begins and ends with an inquiry of whether the *seller* had authorization to make a sale. The exhaustion doctrine is simply a limit on the scope of the patent monopoly, that is, a limit on the exclusive rights of the patentee. The right to exclude expires (or is "exhausted") by an authorized sale.[8]

Third, the majority claims that giving full sweep to the articulation of the exhaustion doctrine in *Quanta* and other cases would be inconsistent with the Supreme Court's decision in *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 175 (1938), *aff'd on reh'g*, 305 U.S. 124 (1938). The majority asserts that *General Talking Pictures* "held that a patentee can preserve its patent rights by authorizing a manufacturing licensee to make and sell a patented article under an otherwise-proper restriction, including a restriction on the buyer's post-purchase use." Maj. Op. at 42. The majority suggests it would be incongruous if "a patentee cannot preserve its patent rights against uses of a patented article . . . if,

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[8] *See, e.g.*, *Quanta*, 553 U.S. at 636–38 (concluding "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights"); *Univis*, 316 U.S. at 249 ("[T]he authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold."); *Bos. Store of Chi.*, 246 U.S. at 25 (Sale "placed the machine so sold beyond the confines of the patent law . . . ."); *Mitchell*, 83 U.S. at 548 ("[W]hen [the patented article] rightfully passes from the patentee to the purchaser, [it] ceases to be within the limits of the monopoly."); *McQuewan*, 55 U.S. at 549 ("[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly.").

instead of licensing someone else to make and sell the article, it chooses to make and sell the article itself." *Id.* The majority urges there is "no sound legal basis" for distinguishing restrictions on a purchaser from restrictions on a licensee. *Id.* at 8.[9]

In *General Talking Pictures*, a patent owner granted a non-exclusive license to a licensee to manufacture and sell patented sound amplifier products. 304 U.S. at 180. The license contained a field-of-use restriction: the licensee could only make and sell amplifiers for non-commercial use. *Id.* Nonetheless, in violation of the license terms, the licensee made and sold the products knowing that they were to be used in a commercial theater, and the buyer had actual knowledge that the licensee lacked authority to make such a sale. *Id.* The Court stated the "controlling facts" as, "[t]he patent owner did not sell to petitioner the amplifiers in question or authorize [the licensee] to sell them or any amplifiers for use in theaters or any other commercial use. The sales made by the [licensee] were outside the scope of its license and not under the patent." *Id.* at 180. There had been no authorized first sale, for the licensee "could not convey to [the ultimate purchaser] what both knew it was not authorized to sell," and thus both were liable for infringement. *Id.* at 181–82.

There is nothing anomalous about *General Talking Pictures*. The Supreme Court has clearly distinguished between sales and licenses, holding that while a patentee cannot impose post-sale restrictions

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[9] *See also* Maj. Op. at 25 ("no sound reason"); *id.* at 27 ("formalistic distinctions of no economic consequence") (quotation marks and citation omitted); *id.* at 39 ("no good reason"); *id.* at 42 ("no basis in the policy of the patent statute"); *id.* at 43 ("unjustifiably formalistic").

on an authorized sale, it can impose restrictions on a licensee. *See Gen. Elec.*, 272 U.S. at 489–90; *McQuewan*, 55 U.S. at 549–50; 6A Donald S. Chisum, *Chisum on Patents* § 19.04[3][h] (2015).

That the exhaustion of rights applies only to sales and not licenses was clear in *Kirtsaeng*, which stated that under the copyright "first sale" doctrine, 17 U.S.C. § 109(a), because many movie theater owners "were lessees, not owners, of their copies [of copyrighted films], . . . they (like bailees and other lessees) cannot take advantage of the 'first sale' doctrine." 133 S. Ct. at 1361.[10]

Thus, in *Quanta*, the Court stated that *General Talking Pictures* "held that exhaustion did not apply because the manufacturer [licensee] had no authority to sell the amplifiers for commercial use." 553 U.S. at 636. But *Quanta* held that where the licensee does have authority to sell, the authorized sale results in exhaustion. In *Quanta*, Intel, a licensee, did have authority to make sales to purchasers, and "exhaustion turns only on Intel's own license to sell products practicing the [patentee's patents]." *Id.* at 637.[11]

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[10] Similarly, the Court explained in *Mitchell* that purchasers "who buy goods from one not the owner, and who does not lawfully represent the owner, however innocent they may be, obtain no property whatever in the goods, as no one can convey... any better title than he owns, unless the sale is made in market overt, or under circumstances which show that the seller lawfully represented the owner." 83 U.S. at 550.

[11] The Supreme Court has never even decided that an *authorized* sale by a licensee with a limited license does not exhaust the patentee's patent rights in the item sold. That question was reserved by the Court in *General Talking Pictures*. 305 U.S. at 127 ("Nor have we occasion to consider the effect of a 'licensee's notice' which purports to restrict the use of articles lawfully sold.").

The majority makes much of the fact that the sale from the licensee to the ultimate purchaser in *General Talking Pictures* did not result in exhaustion. *See* Maj. Op. at 42, 48–49. But this is not surprising. The licensee infringed the patent by its manufacture and sale of the item. The sale of the amplifier by the infringer to the ultimate purchaser was the antithesis of an authorized sale, and it is hardly surprising that an infringer's unauthorized sale did not result in exhaustion.

In any event, even if there were some tension between the Supreme Court's broad statement of the exhaustion rule and *General Talking Pictures*, it is not our task to ignore Supreme Court rulings as "unjustifi[ed]" or "[un]sound" because they are purportedly inconsistent with other Supreme Court cases. The distinction between restrictions on sales (impermissible) and restrictions on licensees (permissible) exists in the Court's precedent, and it is not for us to decide if it is a sound distinction. "If a precedent of th[e] Court has direct application in a case, yet appears to rest on reasons rejected in some other line of decisions, the Court of Appeals should follow the case which directly controls, leaving to th[e] Court the prerogative of overruling its own decisions." *Rodriguez de Quijas* v. *Shearson/Am. Express, Inc.*, 490 U.S. 477, 484 (1989); *see also State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997) (Even if a Supreme Court precedent contains many "infirmities" and rests upon "wobbly, moth-eaten foundations," it remains the "Court's prerogative alone to overrule one of its precedents.").

Finally, the majority proposes that we should somehow sustain the restriction here because it may be pro-competitive. Exhaustion does not turn on whether a particular post-sale restriction is desirable

or undesirable, pro-competitive or anti-competitive, but whether the sale was authorized and the item has passed beyond the scope of the patent monopoly. In any case, the Court has suggested that a prohibition on resale is "manifestly anticompetitive." *Kirtsaeng*, 133 S. Ct. at 1363.[12]

There is, in sum, no colorable basis for the majority's failure to follow the exhaustion rule for domestic

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[12] *Id.* (stating that "competition, including freedom to resell, can work to the advantage of the consumer" and noting that "restraints with 'manifestly anticompetitive effects' are *per se* illegal") (quoting *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 886 (2007)).

Even on its own terms, the majority's view that Lexmark's post-sale restrictions can be pro-competitive is questionable. The majority posits that Lexmark's single-use/no-resale restriction may not be inconsistent with the antitrust laws because "non-price vertical restraints are to be judged by a rule of reason." Maj. Op. at 57. But Lexmark's single-use/no-resale restriction imposed on the defendants is not a vertical restraint. "Restraints imposed by agreement between competitors have traditionally been denominated as horizontal restraints, and those imposed by agreement between firms at different levels of distribution as vertical restraints." *Bus. Elecs. Corp.* v. *Sharp Elecs. Corp.*, 485 U.S. 717, 730 (1988). A restriction on the defendants' resale is not a restraint on "firms at different levels of distribution," as between a manufacturer and a dealer. The restraint is applied to competitors in the sale of Lexmark ink cartridges. Reconditioned durable products compete with new products in the same market. *See United States* v. *Aluminum Co. of Am.*, 148 F.2d 416, 424–25 (2d Cir. 1945) (Hand, J.). And horizontal restraints of trade are ordinarily *per se* unlawful under the antitrust laws. *See Nat'l Collegiate Athletic Ass'n* v. *Bd. of Regents of Univ. of Okla.*, 468 U.S. 85, 100 (1984); *see also* 2 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley, & Christopher R. Leslie, *IP and Antitrust* § 30.2, at 30-2 (2d ed. Supp. 2010) ("A restraint is 'horizontal' when at least two of the relevant participants are (1) actual rivals or (2) would or could be actual rivals but for the restraint.").

sales as articulated by the Court in *Quanta* and numerous other cases.

II. FOREIGN EXHAUSTION

The second issue here concerns foreign exhaustion. Lexmark sold patented ink cartridges outside the United States to foreign purchasers. As the majority recognizes, "Lexmark made the foreign sales without communicating a reservation of U.S. patent rights." Maj. Op. at 59. These were, in other words, authorized sales by the holder of United States patent rights, and the sales of so-called Regular Cartridges did not contain "any sale terms restricting reuse or resale." Maj. Op. at 10. If those latter sales had been made in the United States, even under the majority's cramped view of exhaustion, there is no question that the sales would have exhausted Lexmark's domestic patent rights. The issue is whether the foreign location of the sale should lead to a different result, as we previously held in *Jazz Photo*, 264 F.3d at 1111.

Like the majority I would retain *Jazz Photo* insofar as it holds that a mere foreign sale does not in all circumstances lead to exhaustion of United States patent rights. But the government argues, and I agree, that the foreign sale should result in exhaustion if the authorized seller does not explicitly reserve its United States patent rights.

A

Let us first consider the centerpiece of the majority's holding that there is a doctrinal blanket ban on foreign exhaustion, namely the Supreme Court's decision in *Boesch* v. *Graff*, 133 U.S. 697 (1890). *Boesch* announced no such blanket ban. It did not even involve an authorized sale by the holder of U.S. patent

rights but rather a sale by a third party under a foreign law's prior use exception.

In that case, a seller in Germany sold patented lamp burners to two individuals, Boesch and Bauer. *Id.* at 701. The seller was not the U.S. patent holder, or a German patent holder, nor was he even a licensee. *Id.* Under German law, the seller could make and sell the burners because he had made preparations to manufacture them prior to the filing of the German patent by the holder of the U.S. patent rights. *Id.* When Boesch and Bauer imported and sold the lamp burners in the United States, the American assignees sued for infringement. *Id.* at 698. The Court affirmed the holding of infringement, finding that Boesch's and Bauer's sales were "in defiance of the rights [of] patentees under a United States patent. . . . The sale of articles in the United States under a United States patent cannot be controlled by foreign [(i.e., German)] laws." *Id.* at 703.

Thus *Boesch* does not apply here because the foreign sales were made by Lexmark—the U.S. patent rights holder—itself. The accused infringer does not rely on foreign law as the source of its authority but the doctrine of exhaustion resulting from an authorized sale by a U.S. rights holder.

Just as *Boesch* is inapposite, so too is the doctrine of extraterritoriality, reflected in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972); *Dowagiac Manufacturing Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915); and *Brown* v. *Duchesne*, 60 U.S. 183 (1856). *See* Maj. Op. at 79–80. The question here is not whether the manufacture or use of a patented product wholly outside of the United States is patent infringement under U.S. law, *see Deepsouth*, 406 U.S. at 527, or whether foreign law

creates a defense to infringement in the United States, *see Boesch*, 133 U.S. at 703. Rather, the question is whether United States patent law recognizes exhaustion that occurs abroad from an authorized foreign sale by the holder of the U.S. patent rights and without reservation of U.S. rights.[13] The majority itself admits that foreign activity, such as express or implied license, can have an impact on the rights of a United States patent owner. *See* Maj. Op. at 9.

B

Strikingly, every one of the lower court decisions before *Jazz Photo* applied exactly the rule for which the government argues. When the sale was made by an entity not holding U.S. patent rights, as in *Boesch*, or when the authorized foreign seller clearly reserved U.S. rights, there was no exhaustion. *See Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 934–35 (D.N.J. 1983) (foreign sale not authorized by U.S. exclusive licensee); *Griffin* v. *Keystone Mushroom Farm, Inc.*,

453 F. Supp. 1283, 1285, 1287 (E.D. Pa. 1978) (foreign sale not authorized by U.S. exclusive licensee); *Daimler Mfg. Co.* v. *Conklin*, 170 F. 70, 70, 72–73 (2d Cir. 1909) (foreign sale was not authorized by U.S. patent holder); *see also Dickerson* v. *Tinling*, 84 F. 192, 193 (8th Cir. 1897) (foreign sale made with prohibition on import into and sale within United States); *Dickerson* v. *Matheson*, 57 F. 524, 525–26 (2d Cir. 1893) (foreign sale with prohibition on import into United States).

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[13] Foreign law cannot affect, of course, the significance of the reservation of U.S. patent rights. *See Boesch*, 133 U.S. at 703.

But the cases uniformly recognize or assume that where the foreign sale was made by a seller holding U.S. patent rights without a contractual reservation of U.S. rights, exhaustion occurred as a result of an authorized foreign sale. In *Holiday* v. *Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885), the U.S. patentee sold its patented article in England "without restriction or conditions" to a first purchaser. A second purchaser obtained the article from the first, and brought the article back to the United States. *Id.* The circuit court affirmed the trial court's judgment of noninfringement, stating, "[w]hen the owner sells an article without any reservation respecting its use . . . the purchaser acquires the whole right of the vendor in the thing sold . . . . The presumption arising from such a sale is that the vendor intends to part with all his rights in the thing sold." *Id.* In *Dickerson* v. *Matheson*, in 1893, the Second Circuit concluded that "[a] purchaser in a foreign country, of an article patented in that country and also in the United States, from the owner of each patent, or from a licensee under each patent, who purchases without any restrictions . . . acquires an unrestricted ownership in the article, and can use or sell it in this country." 57 F. at 527. Similarly in *Dickerson* v. *Tinling*, in 1897, the Eighth Circuit "[c]onced[ed,] [but did not decide,] that one who buys a patented article without restriction in a foreign country from the owner of the United States patent has the right to use and vend it in this country." 84 F. at 195. The Second Circuit also found foreign exhaustion in *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Engineering Corp.*, 266 F. 71 (2d Cir. 1920). There, the U.S. patent owner licensed a corporation to build airplanes in Canada with "no restriction or limitation as to time, or place, or manner of use of the aeroplanes." *Id.* at 80. A buyer who purchased the airplanes in Canada and

then brought them back to the United States was not liable for infringement. *See id.* In *Sanofi, S.A.* v. *Med-Tech Veterinarian Products, Inc.*, in 1983, the district court found exhaustion because even "assuming that Sanofi had a right to enjoin the reselling of the goods in [the United States], it waived that right by not placing any written restrictions upon the purchaser at the time of sale." 565 F. Supp. at 938.

This uniform approach, existing well before the 1952 Patent Act and continuing thereafter, strongly supports the government's position. There is indeed a strong argument that the 1952 Act should be read as adopting these earlier cases. *See SCA Hygiene Prods. Aktiebolag* v. *First Quality Baby Prods., LLC*, 807 F.3d 1311, 1321 (Fed. Cir. 2015) (en banc) (well-established doctrine of laches codified by 1952 Patent Act).

C

So too congressional legislation described by the majority, far from contradicting the government's approach, confirms it. Each bilateral trade agreement cited by the majority requires preservation of U.S. patent rights only where the U.S. rights have been expressly reserved.[14]

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[14] Even if these trade agreements were to the contrary, the acts implementing each agreement make clear that they cannot override U.S. patent law. *See* United States-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, § 102, 118 Stat. 1103 (2004) ("No provision of the Agreement, nor the application of any such provision to any person or circumstance, which is inconsistent with any law of the United States shall have effect. . . . Nothing in this Act shall be construed . . . to amend or modify any law of the United States."); United States-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-206, § 102, 118 Stat. 919 (2004) ("No provision of the

This is illustrated by the U.S.-Australia agreement, where the patentee's domestic rights must be preserved "where the patentee has placed restrictions on importation by contract or other means." United States-Australia Free Trade Agreement, Aus.-U.S., art. 17.9.4, May 18, 2004, KAV 6422 (2005). Likewise the U.S.-Singapore agreement requires recognition of an action to prevent or redress the unauthorized procurement of a patented pharmaceutical product, including where it was first sold abroad, but only where someone "knows or has reason to know that such product is or has been distributed in breach of a contract between the right holder and a licensee." United States-Singapore Free Trade Agreement, Sing.-U.S., art. 16.7.2, May 6, 2003, 42 I.L.M. 1026 (2003). And the U.S.-Morocco agreement permits the United States to limit foreign exhaustion, as it did previously with Australia and Singapore, "to cases where the patent owner has placed restrictions on importation by contract or other means." United States-Morocco Free Trade Agreement, Morocco-U.S., art. 15.9.4, n.10, June 15, 2004, 44 I.L.M. 544 (2005).

D

This brings us to the Supreme Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). I agree with the majority that *Kirtsaeng* does not compel identity between the "first sale" doctrine in copyright and patent exhaustion, due to the differences between copyright and patent law.

Agreement, nor the application of any such provision to any person or circumstance, which is inconsistent with any law of the United States shall have effect."); United States-Singapore Free Trade Agreement Implementation Act, Pub. L. No. 108-78, § 102, 117 Stat. 948 (2003) (same).

But unlike the majority, I think that *Kirtsaeng* provides significant guidance and cannot be dismissed as simply a copyright case, or as limited to the "first sale" provision of the Copyright Act.[15] The policies that animated *Kirtsaeng* are in large part applicable to patent exhaustion. The Court emphasized the importance of leaving purchasers free to resell goods to enhance competition in the marketplace. *Id.* at 1363. The Court found that the "first sale" doctrine "frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trade, readily movable goods." *Id.* The Court also found significant the plea of technology companies, who informed the Court that "automobiles, microwaves, calculators, mobile phones, tablets, and personal computers contain copyrightable software programs or packaging." *Id.* at 1365 (internal quotation marks omitted). "A geographical interpretation [of the 'first sale' doctrine] would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software. . . . Without that permission a foreign car owner could not sell his or her used car." *Id.*

Those commercial consequences are equally applicable to patent exhaustion. Automobiles, microwaves, calculators, mobile phones, tablets, and personal computers also contain patented components. To paraphrase, "a geographical interpretation [of patent exhaustion] would prevent the resale of, say, a car, without the permission of the holder of each [pa-

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[15] *Kirtsaeng* recognized that the "first sale" doctrine "played an important role in American copyright law" even before its first codification by the Copyright Act of 1909, § 41, 35 Stat. 1084. 133 S. Ct. at 1363 (citing *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908)).

tent] on each piece of [patented] automobile [software or hardware]. . . . Without that permission a foreign car owner could not sell his or her used car."

Refusing to find presumptive exhaustion by foreign sales would have serious adverse consequences in the patent area, just as in the area of copyright. Technology companies have echoed the concerns in *Kirtsaeng* and report that "modern devices include components from dozens—if not hundreds—of suppliers." Brief for LG Electronics, Inc., Dell Inc., Google Inc., Intel Inc., *et al.* as *Amici Curiae* 2. The majority's rule would require a manufacturer to "trace the patent rights of *every* component it purchases and then negotiate appropriate license arrangements with the component manufacturer (as well as any sub-component manufacturer)," and ultimately "it is consumers who suffer most directly through higher prices." *Id.* at 5, 8. A major retailer informs us that it "often sells patented products that, although genuine, were not purchased directly from the patent holder" and that "[s]ome of those products were first sold outside of the United States." Brief for Costco Wholesale Corp. *et al.* as *Amici Curiae* at 1. A domestic-only patent exhaustion rule would seriously impair international trade.

Kirtsaeng emphasized the "ever-growing importance of foreign trade to America," 133 S. Ct. at 1367, which includes trade not just in artwork and books but also automobiles, appliances, mobile phones, tablets, and personal computers. The Court concluded:

> [T]he fact that harm has proved limited so far may simply reflect the reluctance of copyright holders so far to assert geographically based resale rights. They may decide differ-

> ently if the law is clarified in their favor. Regardless, a copyright law that can work in practice only if unenforced is not a sound copyright law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely unenforced, would breed disrespect for copyright law itself.

Id. at 1366. So too with patent law.

E

Despite these significant policy considerations favoring foreign exhaustion for both copyright and patent, there are significant differences between copyright and patent law that cut the other way. The premise of exhaustion is that the rights holder has been compensated for its efforts. *See Univis*, 316 U.S. at 251 ("The reward he was demanded and received is for the article and the invention which it embodies . . . . He has thus parted with his right to assert the patent monopoly with respect to it . . . ."). In the area of copyright, given the uniform international protection of copyrights, it is reasonable to assume that the rights holder will receive compensation for a foreign sale. But patent law is different. It is not uniform from country to country. Indeed, there are typically significant differences from country to country. Many countries offer no realistic protection or very little protection for items patented under U.S. law. In other words, there is reason to doubt that the rights holder has been fully compensated for a foreign sale. This suggests an accommodation between the interests of the rights holder and the unsuspecting buyer must be found.

Even the majority recognizes the need for such an accommodation. The majority acknowledges that the law should accommodate the potential of "unin-

tended infringement by buyers of goods in foreign countries who bring them into the United States," but believes that problem could be solved by the availability of an express or a vague implied license defense. *See* Maj. Op. at 93, 98. That defense provides little comfort, however, because it places the burden on the purchaser to obtain a statement from each patentee of a patented component in a product that it has permission to import the component into the United States, or else prove in court that the circumstances of each patentee's sale of its component to the manufacturer constituted an implied license to import into the United States.

In my view, the necessary accommodation between the interests of the rights holder and the unsuspecting buyer can only be achieved by the government's proposal to put the burden on the U.S. rights holder to provide notice of a reservation of U.S. rights to the purchaser, an approach supported by the earlier lower court decisions and legislative action.

In other words, the country-to-country differences in patent laws, and the different economic choices patentees must make as a result, suggest that patentees should be able to reserve their U.S. patent rights when making or authorizing foreign sales.[16] But *Kirtsaeng*'s policy concerns indicate that that right should not extend to situations where the

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[16] There is significant uniformity and reciprocity in international copyright law, *see Kirtsaeng*, 133 S. Ct. at 1359–60 (observing that American copyright laws protect "works 'first published' in any one of the nearly 180 nations that have signed a copyright treaty with the United States"), but as the majority describes, the availability and scope of patent protection differ from country to country. *See* Maj. Op. at 73–76.

patentee is silent or unclear. If a patentee wishes to reserve its U.S. rights, it should be required to do so unmistakably. The patentee is in a better position to reserve its rights than the purchaser is to inquire into any reservation. A rule requiring reservation would protect both the interests of the authorized seller and the unsuspecting buyer.

* * * * *

In conclusion, I would overrule our decision in *Mallinckrodt* as inconsistent with governing Supreme Court authority and overrule *Jazz Photo* to the extent that it imposes a blanket ban on foreign exhaustion. I would recognize foreign exhaustion where the U.S. rights holder has not notified the buyer of its retention of the U.S. patent rights. I respectfully dissent from the majority's contrary holdings.

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

LEXMARK INTERNATIONAL, INC.,
Plaintiff-Cross-Appellant

v.

IMPRESSION PRODUCTS, INC.,
Defendant-Appellant

QUALITY CARTRIDGES, INC., JOHN DOES, 1-20, BLUE TRADING LLC, EXPRINT INTERNATIONAL, INC., LD PRODUCTS, INC., PRINTRONIC CORPORATION, TESEN DEVELOPMENT (HONG KONG) CO. LTD., BENIGNO ADEVA AND HIS COMPANIES,
Defendants

2014-1617, 2014-1619

Appeals from the United States District Court for the Southern District of Ohio in No. 1:10-cv-00564-MRB, Judge Michael R. Barrett.

SUA SPONTE HEARING EN BANC

Before PROST, *Chief Judge*, NEWMAN, LOURIE, DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO, CHEN, and HUGHES, *Circuit Judges*.

PER CURIAM.

ORDER

This case was argued before a panel of three judges on March 6, 2015. The panel sua sponte requested a poll on whether to consider this case en banc in the first instance. A poll was conducted and a majority of the judges who are in regular active service voted for sua sponte en banc consideration.

Accordingly,

IT IS ORDERED THAT:

(1) The court sua sponte orders that this case be heard en banc under 28 U.S.C. § 46 and FED. R. APP. P. 35(a). The court en banc shall consist of all circuit judges in regular active service who are not recused or disqualified.

(2) The parties are requested to file new briefs. The briefs should address the following issues:

(a) The case involves certain sales, made abroad, of articles patented in the United States. In light of *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2012), should this court overrule *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion.

(b) The case involves (i) sales of patented articles to end users under a restriction that they use the articles once and then return them and (ii) sales of the same patented articles to resellers under a restriction that resales take place under

> the single-use-and-return restriction. Do any of those sales give rise to patent exhaustion? In light of *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), should this court overrule *Mallinckrodt, Inc. v. Medi-part, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), to the extent it ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion?

(3) This appeal will be heard en banc on the basis of the additional briefing ordered herein, and oral argument. An original and thirty copies of new en banc briefs shall be filed, and two copies of each en banc brief shall be served on opposing counsel. Impression Products, Inc.'s en banc brief is due 45 days from the date of this order. Lexmark International, Inc.'s en banc response brief is due within 30 days of service of Impression Products, Inc.'s en banc brief, and the reply brief within 15 days of service of the response brief. Briefs shall adhere to the type-volume limitations set forth in Federal Rule of Appellate Procedure 32 and Federal Circuit Rule 32.

(4) Briefing should be limited to the issues set forth above.

(5) With respect to the Joint Motion for Entry of Stipulated Order Regarding Supplementations of the Record (A2554-66) ("stipulation"), it is the court's understanding that any claims to the stipulation's confidentiality are waived. *See* ECF Nos. 76, 78. Therefore, the court orders that the parties file a copy of the stipulation with the court within 10 days of this order. The court further orders that all exhib-

its referenced in the stipulation be filed with the court within 10 days. Any redactions to the exhibits must be in compliance with Federal Circuit Rule 28, and limited in nature. If any part of any of the exhibits are marked as confidential, the parties are ordered to show cause for each redaction, to be filed simultaneously with the filing of the exhibits.

(6) The court invites the United States Department of Justice to file a brief expressing the views of the United States as amicus curiae. Other briefs of amici curiae will be entertained, and any such amicus briefs may be filed without consent and leave of court but otherwise must comply with Federal Rule of Appellate Procedure 29 and Federal Circuit Rule 29.

(7) Oral argument will be held at a time and date to be announced later.

FOR THE COURT

April 14, 2015
Date

/s/ Daniel E. O'Toole
Daniel E. O'Toole
Clerk of Court

APPENDIX C

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
CINCINNATI DIVISION

LEXMARK INTERNATIONAL, INC.
Plaintiff,
v.
INK TECHNOLOGIES PRINTER SUPPLIES, LLC, ET AL.
Defendants.
Civil Action No.1: 10-CV-564
Judge Michael R. Barrett

OPINION AND ORDER

This matter is before the Court on Defendant Impression Products, Inc.'s Second Motion to Dismiss. (Doc. 395). Plaintiff Lexmark International, Inc. has filed a response in opposition (Doc. 431), and Defendant Impression Products, Inc. has filed a reply (Doc. 434). Plaintiff Lexmark International, Inc. also has filed a surreply (Doc. 440-1), and Defendant Impression Products, Inc. has filed a response to the surreply (Doc. 450).[1] This matter is now ripe for review.

I. BACKGROUND

This case concerns the alleged infringement of Plaintiff Lexmark International, Inc.'s ("Lexmark") patented toner cartridges. Lexmark contends that the infringement includes cartridges offered under its Return Program, although the allegations in the

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[1] The Court previously granted the motion for leave to file a surreply, deeming the surreply and the opposition filed. (*See* Doc. 440-1; Doc. 450).

Second Amended Complaint do not specifically identify the Return Program cartridges as being at issue.

In its opposition brief, Lexmark claims that it offers customers two options when purchasing a cartridge: (1) a cartridge subject to a combination single-use patent and contract license (a "Return Program cartridge," previously referred to as a "Prebate cartridge"), or (2) a regular cartridge without any restrictions on its use. According to Lexmark, the purchasers of the Return Program cartridge receive an up-front discount on the purchase price of the cartridge in exchange for agreeing to use the cartridge only once, and to return the empty cartridge to Lexmark for remanufacturing or recycling.

Instead of focusing on the lack of specific allegations in the Second Amended Complaint, Defendant Impression Products, Inc. ("Impression Products") seeks dismissal of the claims on the basis that the Return Program is invalid under patent law.

II. LEGAL STANDARD

In reviewing a motion to dismiss for failure to state a claim, this Court must "construe the complaint in the light most favorable to the plaintiff, accept its allegations as true, and draw all reasonable inferences in favor of the plaintiff." *Bassett* v. *Nat'l Collegiate Athletic Ass'n*, 528 F.3d 426, 430 (6th Cir. 2008) (quoting *Directv, Inc.* v. *Treesh*, 487 F.3d 471, 476 (6th Cir. 2007)). "[T]o survive a motion to dismiss[,] a complaint must contain (1) 'enough facts to state a claim to relief that is plausible,' (2) more than 'a formulaic recitation of a cause of action's elements,' and (3) allegations that suggest a 'right to relief above a speculative level.'" *Tackett* v. *M&G Polymers, USA, LLC*, 561 F.3d 478, 488 (6th Cir. 2009)

(quoting *Bell Atlantic Corp.* v. *Twombly*, 550 U.S. 544, 127 S. Ct. 1955, 1965, 1974, 167 L. Ed. 2d 929 (2007)). A claim has facial plausibility when the pleaded factual content allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged. *Ashcroft* v. *Iqbal*, 556 U.S. 662, 663, 129 S. Ct. 1937, 173 L. Ed. 2d 868 (2009). Although the plausibility standard is not equivalent to a "'probability requirement,' . . . it asks for more than a sheer possibility that a defendant has acted unlawfully." *Id.* at 678 (quoting *Twombly*, 550 U.S. at 556).

III. PARTIES' ARGUMENTS

Impression Products contends that the Return Program is invalid under patent law. In support, it relies upon *Static Control Components, Inc.* v. *Lexmark International, Inc.*, 615 F. Supp. 2d 575 (E.D. Ky. Mar. 31, 2009) ("*Static Control II*"), where the Eastern District of Kentucky reversed its prior decision, holding that the Supreme Court's decision in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008), now required it to find that Lexmark's Return Program (then known as the Prebate Program) is invalid. Impression Products contends that the Court should follow that decision.

In response, Lexmark contends that *Static Control II* was erroneously decided because *Quanta*, 553 U.S. 617, did not determine that all post-sale restrictions were invalid. Lexmark contends that its single-use licenses granted to consumers under the Return Program are enforceable, relying on multiple cases including *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

In its reply, Impression Products argues that Lexmark is attempting to enforce a single-use restriction intended solely for the purpose of preventing competition, and it does not indicate that the consuming public is ever made aware of the fact that purchasing products are subject to a single-use restriction. *Static Control II* is the only decision post-*Quanta* to consider the validity of the Return Program, and in that case, the district court found the Return Program invalid. Impression Products claims that all of the cases relied upon by Lexmark are distinguishable and do not make the Return Program valid and enforceable.

Lexmark argues in its surreply that Impression Products concedes that *Mallinckrodt*, 976 F.2d 700, controls in regards to use-based restrictions, that there is no Federal Circuit precedent indicating *Mallinckrodt* was overruled, that Impression Products improperly relies on matters outside the pleadings, and that Impression Products improperly speculates as to the reasons Lexmark implemented its Return Program.

Impression Products argues in its opposition to the surreply that *Mallinckrodt*, 976 F.2d 700, does not stand for the proposition that any and all post-sale restrictions are legal and enforceable. It argues that Lexmark's Return Program is plainly implemented for improper purposes.

IV. ANALYSIS

The issue presented is whether the Return Program is invalid as a matter of law. Having considered the relevant caselaw and the briefings of the parties, the Court finds that Lexmark's patent infringement claims are barred as a matter of law by

the doctrine of patent exhaustion and must be dismissed.

The issue of patent exhaustion in regards to conditional sales and licenses is not a new one. Courts have been grappling with the issue since as the mid-19th Century when the Supreme Court rendered its decision on patent exhaustion in *Bloomer* v. *McQuewan*, 55 U.S. 539, 549, 14 L. Ed. 532 (1853). The question before the Supreme Court was whether purchasers of licenses to sell or use the planning machines for the duration of the original patent term could continue to use the licenses through the extended term. *Id.* at 548. The Supreme Court held that the extension of the patent term did not affect the rights already secured by purchasers who bought the item for use "in the ordinary pursuits of life." *Id.* at 549; *see also Quanta*, 553 U.S. at 625. In reaching that decision, the Supreme Court recognized the distinction between purchasers of the right to manufacture and sell patents articles and end users of those articles. It explained:

> The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is that he obtains by the patent. And when he sells the exclusive privilege of making or vending it for use in a particular place, the purchaser buys a portion of the franchise which the patent confers. He obtains a share in the monopoly, and that monopoly is derived from, and exercised under, the protection of the United States. And the interest he acquires, necessarily terminates at the time limited for its continuance by the

> law which created it. The patentee cannot sell it for a longer time. And the purchaser buys with reference to that period; the time for which exclusive privilege is to endure being one of the chief elements of its value. He therefore has no just claim to share in a further monopoly subsequently acquired by the patentee. He does not purchase or pay for it.
>
> But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress. And if his right to the implement or machine is infringed, he must seek redress in the courts of the State, according to the laws of the State and not in the courts of the United States, nor under the law of Congress granting the patent. The implement or machine becomes his private, individual property, not protected by the laws of the United States, but by the laws of the State in which it is situated.

McQuewan, 55 U.S. at 549-50.

Numerous decisions concerning patent exhaustion in relation to sales and licenses have followed

McQuewan. Rather than revisiting every one of those relevant opinions here, the Court briefly summarizes only the most relevant of the cases relied upon by the parties in their briefings.

The first post-*McQuewan* case to consider is *General Talking Pictures Corporation* v. *Western Electric Company*, 304 U.S. 175, 58 S. Ct. 849, 82 L. Ed. 1273 (1938). In that case, a patent owner licensed another company the right to manufacture and sell patented sound amplifiers only for private, non-commercial use. *Id.* The licensee, however, knowingly sold the amplifiers to a commercial user, who also was aware that the sale was outside the scope of the license. *Id.* at 180. The Supreme Court explained that patentees may restrict their licensees to certain uses of licensed technology as long as the restrictions do not "extend the scope of the monopoly." *Id.* at 181. Given that the licensee sold the patented product in violations of the field-of-use restriction, the sale was unauthorized and did not result in patent exhaustion. *Id.* Both the licensee and the purchasers were thus found to be bound by the restriction. *Id.* at 180-81.

Although multiple cases followed *General Talking Pictures*, the Court moves forward in time to the decision in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700, 701 (Fed. Cir. 1992), which is central to the parties' dispute. There, the Federal Circuit held that a "single use only" restriction, which accompanied the first sale of a device from the patent owner directly to hospitals and that required disposal of the device after the first use, was a valid and enforceable license. *Id.* It reasoned that generally, "any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to

manufacture or use or sell the [patented] article, will be upheld by the courts." *Id.* at 703. In reaching that decision, the circuit court considered multiple prior cases. *Id.* at 704-07. Based upon the totality of those cases, the circuit court determined the fact that "a restrictive license is legal seems clear." *Id.* at 704 (citing *Mitchell* v. *Hawley*, 83 U.S. 544, 21 L. Ed. 322). "[T]he patentee may grant a license upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." *Id.* at 704-05 (internal quotations omitted). "Unless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law), private parties retain the freedom to contract concerning conditions of sale." *Id.* at 708 (internal citation omitted). Thus, according to the Federal Circuit, if the restriction is found to "be reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims, that ends the inquiry." *Id.* at 708. If the inquiry leads "to the conclusion that there are anticompetitive effects extending beyond the patentee's statutory right to exclude, these effects do not automatically impeach the restriction" as anticompetitive effects that are not *per se* violations of law "are reviewed in accordance with the rule of reason." *Id.*[2]

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[2] This is the concept of patent misuse. The *Mallinckrodt* court noted that the defense requires a factual determination as to whether the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market. 976 F.2d at 706 (citing *Windsurfing Intl* v. *AMF, Inc.*, 782 F.2d 995 (Fed. Cir.), *cert. denied*, 477 U.S. 905, 106 S. Ct. 3275, 91 L. Ed. 2d 565 (1986)).

The Ninth Circuit's decision in *Arizona Cartridge Remanufacturers Association Inc.* v. *Lexmark International, Inc.*, 421 F.3d 981 (9th Cir. 2005) that followed *Mallinckrodt* specifically concerned Lexmark's Prebate Program. In that case, the circuit court considered whether Lexmark's advertising of its Prebate Program under which it gave purchasers an up-front discount in exchange for an agreement to return the empty cartridge to Lexmark for remanufacturing mislead customers into thinking the post-sale restriction was enforceable. *Id.* The plaintiff did not challenge the district court's holding that Lexmark's patent rights were not exhausted because it "could condition the use of its patented Prebate cartridges by consumers under the principle articulated by the Federal Circuit in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, which held that a restriction on a patented good is permissible as long as it is 'found to be reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims.'" *Arizona Cartridge*, 421 F.3d at 986 (quoting *Mallinckrodt*, 976 F.2d at 708). Nor did it argue that Lexmark acted beyond the scope of its patent. *Id.* Instead, it challenged whether Lexmark had a valid contract with the consumers of its product. *Id.* at 987. The circuit court determined that Lexmark presented sufficient unrebutted evidence that it had a facially valid contract because the language on the outside of the cartridge package specified the terms under which the consumer could purchase the item, which the consumer could read prior to determining whether to purchase the product. *Id.* It distinguished that case from instances in which the consumer did not have notice of the condition at the time of purchase. *Id.* at 987 n. 6.

The Lexmark Prebate Program next was addressed in *Static Control Components, Inc.* v. *Lexmark International, Inc.*, 487 F. Supp. 2d 830, 846-48 (E.D. Ky. 2007) ("*Static Control I*"), where the district court held that Lexmark's Prebate Program survived summary judgment due to the valid restrictive licenses contained on the packaging of the prebate cartridges. In so holding, it rejected the notion that the sale of the cartridges to the middlemen before the end user who is bound by the Prebate Program agreement constituted an unrestricted sale that exhausted the patent rights of Lexmark. *Id.* at 847. The district court relied, in part, on the Federal Circuit's guidance in *Mallinckrodt* that the legality of restrictive licenses "seems clear." *Id.* at 848-49 (citing *Mallinckrodt*, 976 F.2d at 704).

Following *Static Control I*, the Supreme Court granted certiorari in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008), to consider whether the license agreement for computer technology patents of LG Electronics precluded exhaustion of the patent rights of LG Electronics. LG Electronics had prevailed before the Federal Circuit on the basis that the agreement between LG Electronics and Intel imposed express conditions on the licensed products, that Quanta had express notice that Intel's sales were conditional, and that the conditions survived exhaustion under *Mallinckrodt*. *See LG Elecs., Inc.* v. *Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370-71 (Fed. Cir. 2006). The Supreme Court, however, did not expressly reference *Mallinckrodt* in its decision, holding that the License Agreement and Master Agreement between LGE and Intel were dispositive. *Quanta*, 553 U.S. 636-38. It reasoned that the License Agreement and the Master Agreement were independent instru-

ments, and the requirement that Intel notify its customers of use restrictions appeared only in the Master Agreement. *Id.* at 636. That restriction thus did not affect Intel's rights under the License Agreement, which imposed no conditions on Intel's ability to sell to consumers. *Id.* at 636-37. As such, the Supreme Court determined that the agreements broadly authorized Intel to sell the licensed products without restrictions or conditions such that the patent rights were exhausted, even though Quanta was aware of the condition. *Id.* at 637-38. In so holding, the Supreme Court stated: "The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638.

After *Quanta*, the *Static Control I* decision was reconsidered by the district court. In *Static Control II*, 615 F. Supp. 2d at 582, the district court held that *Quanta* represented a change in the law of patent exhaustion that broadened the understanding of patent exhaustion, and whereby a patent-based use restriction through post-sale prebate terms was invalidated. In reaching its decision, the district court considered *Quanta* as well as numerous other Supreme Court cases concerning patent exhaustion. *Id.* at 578-84. Upon consideration, the district court believed that the caselaw "reveals that the Court has consistently held that patent holders may not invoke patent law to enforce restrictions on the post-sale use of their patented products" and that after "the first authorized sale to a purchaser who buys for use in the ordinary pursuits in life, a patent holder's patent rights have been exhausted." *Id.* at 582. Applying those concepts to the Prebate Program, the district court determined that Lexmark "attempts to reserve

patent rights in its products through post-sale restrictions on use imposed on its customers[,]" which is "what *Quanta* says Lexmark cannot do." *Id.* at 584. The district court noted a distinction between a condition on the right to sell, as was at issue in *Quanta*, and a post-sale condition on use, like the Prebate Program, stating that the sales of Lexmark cartridges exhausted Lexmark's patent rights and stripped its ability to control post-sale use of the cartridges through patent law. *Id.* at 585. Based upon that analysis, the district court noted its belief that *Quanta* overruled *Mallinckrodt* sub silentio. *Id.* On appeal, however, the Sixth Circuit declined to decide the validity of the Prebate Program, noting that the question was extremely complex and unsettled, and that its resolution would not be relevant to the outcome of the appeal. *Static Control Components, Inc.* v. *Lexmark Int'l, Inc.*, 697 F.3d 387, 421 (6th Cir. 2012).

In *Princo Corporation* v. *International Trade Commission*, 616 F.3d 1318 (Fed. Cir. 2010), *cert. denied*, 2011 U.S. LEXIS 3703 (May 16, 2011), the Federal Circuit considered the doctrine of patent misuse in the context package licenses containing field-of-use restrictions for recordable compact discs and rewritable compact discs. Philips and Sony offered patent licenses to make the CD-R or CD-RW discs with a field-of-use restriction that limited the licensees to using the licensed patents to produce discs according to the Orange Book standards. *Id.* at 1322. Explaining that patent misuse in the licensing context is a doctrine that limits a patentee's right to impose conditions on a licensee that exceed the scope of the patent, the circuit court determined that it did not bar the intervenor from enforcing patent rights against Princo. *Id.* at 1322, 1328. In reaching its decision, the

circuit court relied upon *B. Braun Medical, Inc.* v. *Abbott Laboratories*, 124 F.3d 1419 (Fed. Cir. 1997) and *Mallinckrodt*, 976 F.2d 700, in explaining the rationale underlying the doctrine:

> As a general matter, the unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter, on the theory that the patentee has bargained for, and received, the full value of the goods. That "exhaustion" doctrine *does not apply, however, to a conditional sale or license,* where it is more reasonable to infer that a negotiated price reflects only the value of the "use" rights conferred by the patentee. Thus, express conditions accompanying the sale or license of a patented product, such as field of use limitations, are generally upheld. . . . . When those contractual conditions violate public policy, however, as in the case of price-fixing conditions and tying restraints, the underlying patents become unenforceable, and the patentee loses its right to sue for infringement or breach of contract.

Princo, 616 F.3d at 1328. The circuit court further recognized that the scope of the patent misuse doctrine is narrow because "the patent grant entitles the patentee to impose a broad range of conditions in licensing the right to practice the patent[.]" *Id.* at 1329.[3]

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[3] Although Lexmark also cites to *Monsanto Company* v. *Bowman*, 657 F.3d 1341, 1347 (Fed. Cir. 2011) and *Fujifilm Corp.* v. *Benum*, 605 F.3d 1366, 1371-72 (Fed. Cir. 2010), those cases are not helpful to the analysis of this issue. *Monsanto* cited

Here, the Court is persuaded to follow the reasoning of the district court in *Static Control II*. Consistent with the *Static Control II* court's analysis, this Court's review of the relevant caselaw does not reflect an endorsement by the Supreme Court of post-sale use restrictions once goods are placed into the ordinary stream of commerce. *See Static Control II*, 615 F. Supp. 2d at 578-83 (explaining relevant caselaw). Further, the Court cannot square the *Quanta* decision with the facts alleged by Lexmark as to its Return Program. In *Quanta*, the consumers had notice of the conditions of the sale, yet the Supreme Court still held that the patent rights of LG Electronics had been exhausted after the first unrestricted authorized sale by its licensee Intel. Those facts parallel this case. Lexmark does not allege that the authority of the sellers of the Return Program cartridges were restricted or conditioned in any way. In other words, the facts alleged by Lexmark do not suggest that the sellers had anything other than full authority to sell the Return Cartridges that practiced Lexmark's patents. Instead, Lexmark alleges only that the Return Program cartridges contained notices of a license restriction which bound the ultimate purchaser. Under *Quanta*, those post-sale use restrictions do not prevent patent rights from being exhausted given that the initial sales were author-

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Mallinckrodt only when explaining the Federal Circuit's reasoning in two cases decided pre-*Quanta*. *Monsanto*, 657 F.3d at 1347. Its decision, however, did not endorse those principles, holding that even if the patents had been exhausted as to the first generation self-replicating seeds, no authorized sale had occurred to exhaust the right in the second generation seeds. *Id.* As for *Fujifilm*, it considered *Quanta* in regards to the territorial requirement for patent exhaustion, which is not the issue presently before the Court. *Fujifilm*, 605 F.3d at 1371-72.

ized and unrestricted. Thus, to the extent that *Mallinckrodt* holds that such post-sale use restrictions preclude patent exhaustion after an authorized sale, the Court agrees with the *Static Control II* court that *Mallinckrodt* was overruled by *Quanta* sub silentio. *See Ninestar Tech. Co.* v. *Int'l Trade Comm'n*, 667 F.3d 1373, 1378 (Fed. Cir. 2012) (suggesting that an appellate court decision should not be found overturned by new Supreme Court precedent unless it is plainly inconsistent with that precedent); *Fujifilm Corp.* v. *Benum*, 605 F.3d 1366, 1371 (Fed. Cir. 2010) (similar to *Ninestar*); *Static Control II*, 615 F. Supp. 2d 575 (E.D. Ky. 2009) (similar to *Ninestar*). Although the Court recognizes that *Princo* cited to *Mallinckrodt* with approval in considering the doctrine of patent misuse, that case concerned license restrictions that limited the use of the patent to manufacture and produce the product in accordance with certain standards. It did not concern products that had been placed into the stream of commerce for use in ordinary pursuits in life. *Princo*'s reliance on *Mallinckrodt* thus does not demonstrate a continued endorsement of it in regards to the type of post-sale use restrictions at issue in this case.

A contrary holding would not only be inconsistent with *Quanta*, but would also create significant uncertainty for downstream purchasers and end users who may continue to liable for infringement even after an authorized sale to the consumer has occurred. Therefore, the Court is persuaded that the fully authorized sales of the Return Program cartridges to consumers for use in the ordinary pursuits in life took the cartridges outside the scope of the patent monopoly despite the notices contained on those cartridges, and Lexmark may not now rely on patent

law to hold Impression Products liable for infringement.

V. CONCLUSION

For the foregoing reasons, Impression Products' Second Motion to Dismiss (Doc. 395) is **GRANTED**. The infringement claims against Impression Products based upon the Return Program cartridges are hereby **DISMISSED**.

IT IS SO ORDERED.

s/Michael R. Barrett
Michael R. Barrett, Judge
United States District Court

APPENDIX D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
WESTERN DIVISION

LEXMARK INTERNATIONAL, INC.

Plaintiff,

v.

INK TECHNOLOGIES PRINTER SUPPLIES, LLC, ET AL.,

Defendants.

CASE NO.: 1:10-cv-564

Judge Michael R. Barrett

OPINION AND ORDER

This matter is before the Court on the Motion to Dismiss of Defendant Impression Products, Inc. (Doc. 335). Plaintiff Lexmark International, Inc. has filed a response in opposition (Doc. 367) and Defendant Impression Products, Inc. has filed a reply (Doc. 368).[1] Defendant Impression Products, Inc. subsequently filed a Notice of Additional Authority (Doc. 485) to which Plaintiff Lexmark International, Inc. filed a response (Doc. 488). Defendant Impression Products, Inc. then filed a reply in support of its notice of additional authority. (Doc. 491). This matter is now ripe for review.

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[1] Plaintiff Lexmark International, Inc. subsequently filed a motion for leave to file a surreply (Doc. 378), which Defendant Impression Products, Inc. opposed (Doc. 379). That motion for leave has been denied.

I. BACKGROUND

This case concerns the alleged infringement of Plaintiff Lexmark International, Inc.'s ("Lexmark") patented toner cartridges. Lexmark alleges that it first sold the patented inkjet cartridges at issue outside of the United States. It claims that those patented inkjet cartridges were acquired and remanufactured by one or more foreign defendants that then sold the remanufactured inkjet cartridges to other defendants. Those defendants, in turn, sold the remanufactured inkjet cartridges to others, including customers in the United States. Lexmark contends that Defendant Impression Products, Inc. ("Impression Products") was one of those defendants that sold in the United States remanufactured inkjet cartridges that had originally been sold outside of the United States thereby infringing Lexmark's patent.

II. LEGAL STANDARD

In reviewing a motion to dismiss for failure to state a claim, this Court must "construe the complaint in the light most favorable to the plaintiff, accept its allegations as true, and draw all reasonable inferences in favor of the plaintiff." *Bassett* v. *Nat'l Collegiate Athletic Ass'n*, 528 F.3d 426, 430 (6th Cir. 2008) (quoting *Directv, Inc.* v. *Treesh*, 487 F.3d 471, 476 (6th Cir. 2007)). "[T]o survive a motion to dismiss[,] a complaint must contain (1) 'enough facts to state a claim to relief that is plausible,' (2) more than 'a formulaic recitation of a cause of action's elements,' and (3) allegations that suggest a 'right to relief above a speculative level.'" *Tackett* v. *M&G Polymers, USA, LLC*, 561 F.3d 478, 488 (6th Cir. 2009) (quoting *Bell Atlantic Corp.* v. *Twombly*, 550 U.S. 544, 127 S. Ct. 1955, 1965, 1974, 167 L. Ed. 2d 929 (2007)). A claim has facial plausibility when the

pleaded factual content allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged. *Ashcroft* v. *Iqbal*, 556 U.S. 662, 663, 129 S. Ct. 1937, 173 L. Ed. 2d 868 (2009). Although the plausibility standard is not equivalent to a "'probability requirement,' . . . it asks for more than a sheer possibility that a defendant has acted unlawfully." *Id.* at 678 (quoting *Twombly*, 550 U.S. at 556). However, the Court is "not bound to accept as true a legal conclusion couched as a factual allegation." *Papasan* v. *Allain*, 478 U.S. 265, 286, 106 S. Ct. 2932, 92 L.Ed. 2d 209 (1986); *see also In re Sofamor Danek Grp.*, 123 F.3d 394, 400 (6th Cir. 1997) (stating that a court "'need not accept as true legal conclusions or unwarranted factual inferences'") (quoting *Morgan* v. *Church's Fried Chicken*, 829 F.3d 10, 12 (6th Cir. 1987)).

III. ANALYSIS

The patent exhaustion doctrine generally provides that once a patentee has made an unrestricted sale of a patented article, the patentee loses its right to control the sale, offer for sale, or use of the article. *Bowman* v. *Monsanto Co.*, __ U.S. __, 133 S. Ct. 1761, 1764, 185 L. Ed. 2d 931 (2013); *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008). According to a 2001 decision of the Federal Circuit, the patent exhaustion doctrine is territorial. *Jazz Photo Corporation* v. *International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001). That means that in order for patent exhaustion to apply, the authorized first sale must have occurred in the United States. *Id.* ("United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must

have occurred under the United States patent."). The *Jazz Photo* decision relies upon a United States Supreme Court decision from 1890 in which the Court held that an authorized sale of a good patented by another under the laws of a foreign country does not exhaust the patent rights of the United States patentee, and the United States patentee may sue for infringement when that good is imported into the United States for sale. *Id.* (citing *Boesch* v. *Graff,* 133 U.S. 697, 701-03, 10 S. Ct. 378, 33 L. Ed. 787 (1890)). Thus, under *Jazz Photo,* an initial authorized sale of a patented product outside of the United States would not exhaust the patent rights of the patent holder. *See id.*

Recently, the Supreme Court addressed the parallel "first sale" doctrine under copyright law. *Kirtsaeng* v. *John Wiley & Sons, Inc.*, __ U.S.__, 133 S. Ct. 1351, 1354, 185 L. Ed. 2d 392 (2012). The Supreme Court's decision was rooted in interpretation of a statutory provision of copyright law. *Id.* at 1357-71. Specifically, the Supreme Court considered whether the phrase "lawfully made under this title" restricts the scope of the first sale doctrine geographically. *Id.* at 1357 (citing 17 U.S.C. 109(a)). The plaintiff contended that "lawfully made under this title" imposed a geographical limitation that prevented the first sale provision from applying to its books first manufactured and sold overseas. *Id.* at 1357-58. The defendant, however, read the phrase as imposing a non-geographical limitation that required only that the book be made in compliance with the Copyright Act such that a first manufacture and sale abroad would extinguish the rights of the copyright owner. *Id.* at 1358. The Supreme Court determined that the plain language of the provision said nothing about geography and that interpreting the provision

not to provide a geographical limitation made linguistic sense and did not present the same difficulties as an interpretation that included a geographical limitation. *Id.* at 1358-71.

However, the Supreme Court's analysis did not end there. It next considered the context of the statutory provision. *Kirtsaeng*, 133 S. Ct. at 1360. According to the Supreme Court, the legislative history of the statutory provision indicates that Congress did not have geography in mind when writing the present version of section 109(a). *Id.* Additionally, it determined that other provisions of the current statute supported a non-geographical interpretation. *Id.* at 1361-62. For example, the "manufacturing clause," which limited importation of many copies printed outside the United States, was phased out in an effort to equalize treatment of copies made in America and copies made abroad. *Id.* The Supreme Court had difficulty squaring that "equal treatment" principle with a first sale doctrine that imposed geographical limitations. *Id.* at 1362.

The Supreme Court also considered whether canons of statutory interpretation favored a geographical limitation. In particular, it considered the common law history of the first sale doctrine by applying the cannon of statutory interpretation that "[w]hen a statute covers an issue previously governed by the common law," it is presumed that "Congress intended to retain the substance of the common law." *Kirtsaeng*, 133 S. Ct. at 1363 (citing *Samantar* v. *Yousuf*, 560 U.S. 305, n. 13, 130 S. Ct. 2278, 176 L. Ed. 2d 1047 (2010)). Applying that canon, the Supreme Court traced the doctrine back to the Seventeenth Century where Lord Coke explained the common law's refusal to permit restraints on the al-

ienation of chattels. *Id.* The Supreme Court noted that a law permitting a copyright holder to control the resale or other disposition of a chattel once sold is "'against Trade and Traffi[c], and bargaining and contracting." *Id.* (quoting L. E. Coke, Institutes of the Laws of England, § 360, p. 223 (1628)). It further recognized the same principle of freedom to resell can work to the advantage of the consumer and frees the courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods, and avoids selective enforcement inherent in any such effort. *Id.* (citing *Leegin Creative Leather Prods.* v. *PSKS, Inc.*, 551 U.S 877, 127 S. Ct. 2705, 168 L. Ed. 2d 623 (2007)). Accordingly, the Supreme Court determined that common law of the first sale doctrine "makes no geographical distinctions." *Id.*

The Supreme Court then considered the practical difficulties of placing geographical limitations on the first sale doctrine. *Kirtsaeng*, 133 S. Ct. at 1364. The libraries, in particular, would have difficulty maintaining their collections of foreign books that do not contain a copyright holder's present address or in negotiating fees for those copyrights after first sale. *Id.* at 1365-66. Other manufacturers and retailers of goods would face similar restrictions. *Id.* at 1365. A geographical limitation would prevent the resale of a car without the permission of the holder of each copyright on each piece of copyrighted automobile software, and it also would prevent retailers from buying and selling goods packaged abroad that contain copyrighted logos, labels, and instructions. *Id.* Similarly, museums would have to obtain the permission of a copyright owner to display a foreign work, even if the copyright owner already sold or donated the work to a foreign museum. *Id.* Also of some importance was

that many had relied on the first sale doctrine's protection in their businesses due to the unsettled nature of the doctrine. *Id.* at 1366.

Finally, the Supreme Court considered the defendant's arguments that a geographical interpretation was favored. *Kirtsaeng,* 133 S. Ct. at 1367-71. One particular issue addressed was the division of markets. *Id.* at 1370. The Supreme Court determined that there was "no basic principle of copyright law that suggests that publishers are especially entitled to such rights." *Id.* at 1370. Rather, "Congress enacted a copyright law that (through the 'first sale' doctrine) limits copyright holders' ability to divide domestic markets." *Id.* at 1371. That limitation is consistent with antitrust laws. *Id.* In the Supreme Court's view, "[w]hether copyright owners should, or should not, have more than ordinary commercial power to divide international markets is a matter for Congress to decide . . . [and the Supreme Court does] no more here than try to determine what decision Congress has taken." *Id.*

Based on the entirety of its analysis, the Supreme Court held that "[i]n our view, § 109(a)'s language, its context, and the common-law history of the first sale doctrine, *taken together,* favor a non-geographical interpretation. We also doubt that Congress would have intended to create the practical copyright-related harms with which a geographical interpretation would threaten ordinary scholarly, artistic, commercial and consumer activities." *Id.* at 1358 (emphasis added).

Here, the core dispute between Lexmark and Impression Products is whether the United States Supreme Court's March 19, 2013 decision in *Kirtsaeng,* 133 S. Ct. 1351, overturns the Federal

Circuit's decision in *Jazz Photo*, 264 F.3d 1094, such that Lexmark's patent rights were exhausted upon the first authorized sale abroad.[2] Other courts that have considered the continuing validity of an appellate court decision in light of new Supreme Court precedent have suggested that an appellate court decision should not be overturned unless it is plainly inconsistent with the Supreme Court precedent. *See Ninestar Tech. Co.* v. *Int'l Trade Comm'n*, 667 F.3d 1373, 1378 (Fed. Cir. 2012); *Fujifilm Corp.* v. *Benun*, 605 F.3d 1366, 1371 (Fed. Cir. 2010); *Static Control Components, Inc.* v. *Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575 (E.D. Ky. 2009).

In this instance, the balance of considerations weighs in favor of finding that *Kirtsaeng* is not plainly inconsistent with *Jazz Photo*. An obvious distinction between the two cases is that *Jazz Photo* involved patent law whereas *Kirtsaeng* involved only copyright law. Indeed, nowhere in *Kirtsaeng* is there any express mention or consideration of patents, the patent exhaustion doctrine, or patent exhaustion's territoriality requirement. Although a lack of express mention or consideration of the patent exhaustion doctrine does not automatically preclude application of *Kirtsaeng* to patent law, the Federal Circuit recently has reinforced that copyright cases are not "controlling" regarding patent issues. *Lifescan Scotland, Ltd.* v. *Shasta Techs., LLC*, 734 F.3d 1361, 2013 U.S. App. LEXIS 22332, at *38 (Fed. Cir. Nov. 4, 2013) (citing *Bobbs-Merrill Co.* v. *Straus*, 210 U.S.

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[2] In the context of patents, courts have used the term "patent exhaustion" interchangeably with "first sale." For clarity purposes, the Court primarily will refer to "first sale" in the context of copyrights and to "exhaustion" in the context of patents, except where otherwise necessary or appropriate.

339, 346, 28 S. Ct. 722, 52 L. Ed. 1086 (1908)). In fact, the Supreme Court historically has been reluctant to readily consider copyright cases and patent cases interchangeably, noting that the protections afforded by copyright law and patent law are different. *See Bobbs-Merrill*, 210 U.S. at 346.[3] Moreover, the Federal Circuit has acknowledged that the patent exhaustion doctrine does not squarely align with first sale provision of the Copyright Act, even though they are similar doctrines. *Fuji Photo Film Co., Ltd.* v. *Int'l Trade Comm'n*, 474 F.3d 1281, 1294 (Fed. Cir. 2007) (acknowledging that patent rights are exhausted through a first sale in the United States whereas "[a] different rule applies in the copyright context"). In that respect, the law weighs against finding that *Kirtsaeng* overturned *Jazz Photo* sub silentio.

Other factors also weigh against a finding that *Kirtsaeng* overturned *Jazz Photo*. The decision in *Kirtsaeng* is rooted in statutory and legislative interpretation of section 109(a) of the Copyright Act. 17 U.S.C. § 109(a). Noticeably absent from patent law is a codification of the exhaustion doctrine. Rather, the patent exhaustion doctrine, including its territoriali-

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[3] In *Bobbs-Merrill*, the Supreme Court was reluctant to accept patent law cases on first sale as being directly binding for copyright law. 210 U.S. at 345-46. There, the copyright owner relied on prior patent cases as supporting a right to impose conditions on sale. *Id.* at 342. The Supreme Court recognized that there were differences in the extent of protections granted by copyright law and patent law. *Id.* at 346. As such, *Bobbs* teaches that the common law on patent exhaustion does not automatically transfer to copyright law. The contrary presumably also is true – that is, that law on copyright's first sale doctrine does not automatically transfer to patent law's exhaustion doctrine.

ty requirement, is grounded in judicial precedent. *See Jazz Photo*, 264 F.3d at 1105. As such, unlike in *Kirtsaeng*, there is no statutory provision or legislative history of the exhaustion doctrine that favors a non-geographical interpretation. Thus, the core statutory text that weighed in favor of a non-geographical interpretation is non-existent in the context of patent law.

The lack of a codified patent exhaustion doctrine means that there may be more leeway for understanding and interpreting the doctrine. While Lord Coke's policy provides a natural starting place since that policy undergirds the patent exhaustion doctrine, it is not the only factor to be considered. *See Lifescan Scotland*, 2013 U.S. App. LEXIS 22332, at *39-40 (recognizing that the same policy underlying the first sale doctrine also undergirds the doctrine of patent exhaustion) (citing *Straus* v. *Victor Talking Mach. Co.*, 243 U.S. 490, 500-01, 37 S. Ct. 412, 61 L. Ed. 866 (1917)). Importantly, the patent exhaustion doctrine's history differs from the history of the first sale doctrine addressed in *Kirtsaeng*. In *Kirtsaeng*, the Supreme Court considered what common law of the first sale doctrine existed prior to the codification of the doctrine in the Copyright Act of 1909, which subsequently was superseded by the Copyright Act of 1976. *Kirtsaeng*, 133 S. Ct. at 1363. In doing so, it looked to the last Supreme Court decision prior to the 1909 codification to determine if it indicated any intent to impose a geographical restriction. *Id.* at 1353. Finding no geographical restriction in that Supreme Court precedent, the Supreme Court concluded that the common law principles set forth by Lord Coke still were followed at the time of codification and had never been modified by Congress. *Id.* at 1363. Since the doctrine of patent exhaustion is not

codified, the same reasons for considering and applying Lord Coke's principles are not present.

In contrast to the first sale doctrine, the patent exhaustion doctrine has evolved through Supreme Court and lower court decisions, and it remains premised upon those decisions. In particular, *Jazz Photo*, 264 F.3d 1094, is a decision that interprets the prior Supreme Court precedent on patent exhaustion to determine how it applies in the context of first sales abroad. The Supreme Court in *Kirtsaeng* did not specifically consider the evolution of a common law principle through Supreme Court decisions on patent exhaustion and the subsequent interpretations thereof. It also did not foreclose the possibility that the first sale principles articulated by Lord Coke could be and were modified by the Supreme Court and lower courts in the patent context. *See Kirtsaeng*, 133 S. Ct. at 1353 (considering whether a geographical distinction could be found in the Supreme Court case that first applied the first sale provision one year prior to its codification).

Moreover, *Kirtsaeng* suggests that Lord Coke's principles should not be applied in a vacuum. Rather, it is necessary to consider the context, history and practical considerations to determine the proper application of the patent exhaustion doctrine to first sales abroad. *See Kirtsaeng*, 133 S. Ct. at 1358. Part of that context and history is *Jazz Photo* and its progeny, the Supreme Court precedent on which *Jazz Photo* relies, other judicial decisions concerning the patent exhaustion doctrine, and the practical patent-specific implications of a territoriality requirement for patent exhaustion. Those particular considerations were not addressed in *Kirtsaeng* nor were

they thoroughly explained or analyzed by Impression Products.

While the Federal Circuit's recent decision in *Lifescan*, 2013 U.S. App. LEXIS 22332, may provide guidance as to how the Federal Circuit may apply *Kirtsaeng* upon reconsideration of *Jazz Photo*, it does not conclusively demonstrate that *Jazz Photo* is no longer good law. *Lifescan* did not concern the territoriality requirement of patent exhaustion. *See Lifescan*, 2013 U.S. App. LEXIS 22332. Instead, it raised a matter of first impression for the Federal Circuit – whether patent exhaustion applied to a product distributed for free. *Id.* at *33. Since there was no Supreme Court guidance directly on point, the Federal Circuit looked to prior Supreme Court precedent on the patent exhaustion doctrine in reaching its decision. *Id.* at *32-38 (citing *Bowman* v. *Monsanto Co.* __ U.S. __, 133 S. Ct. 1761, 1766, 185 L. Ed. 2d 931 (2013); *United States* v. *Univis Lens Co.*, 316 U.S. 241, 62 S. Ct. 1088, 86 L. Ed. 1408 (1942); *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 21 L. Ed. 700 (1873); *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 14 L. Ed. 532 (1852)). After determining that the Supreme Court had never limited the patent exhaustion doctrine to sales only, it then looked to the holding in *Kirtsaeng* merely to reinforce its conclusion that the doctrine was not so limited, even though *Kirtsaeng* was not controlling on issues of patent law. *Id.* at *38. In particular, the Federal Circuit recognized that Lord Coke's principles undergird the patent exhaustion doctrine and do not draw any distinction between gifts and sales. *Id.* at *39-40. Therefore, considering the totality of the circumstances, the Federal Circuit determined a patentee cannot "circumvent the application of patent exhaustion

principles by distributing a product embodying a patent for free." *Id.* at *42.

Here, in contrast to *Lifescan*, the Federal Circuit has determined in *Jazz Photo* that Supreme Court precedent supports a territoriality requirement for patent exhaustion. Thus, Lord Coke's principles are not as easily relied upon as they are in regards to the matter before the Federal Circuit in *Lifescan*. While it is possible that upon revisiting *Jazz Photo* and its cursory reasoning, the Federal Circuit will now give more weight to Lord Coke's policy and the reasoning set forth in *Kirtsaeng*, it is not a foregone conclusion that the policy or the reasoning will be strictly applied. This Court adheres to the view that copyright law and patent law are not identical and offer different protections. Thus, it would be amiss to overlook the distinctions by adopting Impression Products' position that Lord Coke's principles, as applied to the Copyright Act's first sale provision, conclusively demonstrate that *Kirtsaeng* overrules *Jazz Photo* sub silentio.

Reinforcing this Court's reluctance to apply *Kirtsaeng* to patent law is the Supreme Court's denial of certiorari in a case that raised the precise issue currently before this Court. *Ninestar Technology Co., Ltd.* v. *International Trade Commission*, 667 F.3d 1373 (Fed. Cir. 2012), *cert. denied*, 2013 U.S. LEXIS 2409 (U.S., Mar. 25, 2013).[4] That denial of certiorari

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[4] The Federal Circuit had relied upon *Jazz Photo* in holding that United States patent rights are not exhausted by products of foreign provenance. *Ninestar Tech. Co.* v. *ITC*, 667 F.3d 1373, 1378 (Fed. Cir. 2012). In so holding, it rejected the argument that *Jazz Photo* had been overruled by *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 632 n.6, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008) because neither the facts nor the law in

was issued on the same day the Supreme Court remanded two others copyright cases to be considered in light of its decision in *Kirtsaeng*. *See Kumar* v. *Pearson Educ., Inc.*, __ U.S. __, 133 S. Ct. 1631, 185 L. Ed. 2d 614 (2013); *Liu* v. *Pearson Educ. Inc.*, __ U.S. __, 133 S. Ct. 1630, 185 L. Ed. 2d 613 (2013). That denial of certiorari, while not conclusive, certainly suggests that *Jazz Photo* remains for now the controlling case on whether patent rights are exhausted by a first authorized sale abroad.

In so ruling, however, the Court does not intend to determine that *Jazz Photo* ultimately should stand in light of *Kirtsaeng*. The Court is cognizant that many of the reasons for rejecting a territoriality requirement for copyright law may apply equally to patent law. Nevertheless, given the complete lack of consideration of the context, history and practical implications of international patent exhaustion in *Kirtsaeng*, the Court concludes that the Supreme Court did not intend to implicitly overrule *Jazz Photo* and that *Jazz Photo* remains controlling precedent on patent exhaustion abroad.

IV. CONCLUSION

Accordingly, Impression Products' Motion to Dismiss (Doc. 335) is **DENIED**.

IT IS SO ORDERED.

s/Michael R. Barrett
Michael R. Barrett, Judge
United States District Court

Quanta concerned the importation into the United States of a product not made or sold under a United States patent. *Id.* Thus, while the principles of *Quanta* may be subject to application for products first sold domestically, the Federal Circuit has rejected their application for products first sold overseas.

RECORD AND BRIEFS

No. 15-1189

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IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF IN OPPOSITION

TIMOTHY C. MEECE
V. BRYAN MEDLOCK, JR.
JASON S. SHULL
AUDRA C. EIDEM HEINZE
BANNER & WITCOFF, LTD.
Ten South Wacker Dr.
Chicago, IL 60606
(312) 463-5000

CONSTANTINE L. TRELA, JR.*
ROBERT N. HOCHMAN
SIDLEY AUSTIN LLP
One South Dearborn Street
Chicago, IL 60603
(312) 853-7000
ctrela@sidley.com

STEVEN B. LOY
STOLL KEENON OGDEN PLLC
300 W. Vine Street
Suite 2100
Lexington, KY 40507
(859) 231-3000

BENJAMIN BEATON
JOSHUA J. FOUGERE
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005
(202) 736-8000

Counsel for Respondent

* Counsel of Record

May 23, 2016

[Additional Counsel on Inside Cover]

D. BRENT LAMBERT
LEXMARK INT'L, INC.
740 W. New Circle Rd.
Lexington, KY 40550
(859) 232-2000

QUESTIONS PRESENTED

Section 271(a) of the Patent Act provides that "whoever *without authority* makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a) (emphasis added). The petition asks this Court to review two questions related to this provision:

1. This Court and the court of appeals have held that the sale of a patented article does not automatically confer unlimited "authority" for others to make, sell, or use that article where the patent rights actually conveyed are more limited in scope. *E.g.*, *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 304 U.S. 175 (1938); *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). Did the court of appeals correctly reaffirm its precedent in holding that Lexmark's sale of a patented toner cartridge, subject to a lawful and express limitation, did not automatically convey unlimited authority that had been clearly denied?

2. This Court and the court of appeals also have held, in light of Congress's decision to geographically limit the scope of patent rights and infringement liability to the United States, that a lawful sale abroad does not automatically confer unlimited "authority" to sell or import a patented article in the United States. *E.g.*, *Boesch* v. *Graff*, 133 U.S. 697 (1890); *Jazz Photo Corp.* v. *ITC*, 264 F.3d 1094 (Fed. Cir. 2001). Did the court of appeals correctly reaffirm its precedent in holding that Lexmark's sale of a patented toner cartridge in a foreign country, pursuant to the laws of that country, did not automatically convey "authority" to sell and import that product in the United States?

RULE 29.6 STATEMENT

Respondent Lexmark International, Inc., has no parent company and no publicly held company owns 10 percent or more of its stock.

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INTRODUCTION

The petition asks the Court to correct non-existent errors and illusory conflicts in the application of long-established precedent concerning the exhaustion of patent rights. To do so, Impression ignores the statutory text, caricaturizes Judge Taranto's exhaustive and careful opinion for the court of appeals, and distorts this Court's precedent. The court of appeals saw through Impression's contentions: 10 of 12 judges rejected Impression's position that every domestic sale automatically extinguishes all U.S. patent rights, and all 12 judges rejected Impression's position that every foreign sale has the same effect. The decision is comprehensive, correct, and consistent with the precedent of this Court and the courts of appeals.

As to domestic sales, Impression believes that every *sale* of a patented product automatically transfers all of the seller's patent rights in that product, while a *license* of a patent can be as tailored as market forces warrant. As the court of appeals recognized, Impression's position unaccountably favors licensing patentees over selling patentees: "there is no sound reason[] and no Supreme Court precedent[] requiring a distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a. The court of appeals properly refused to insert this novel and arbitrary distinction between sales and licenses into the controlling text of the Patent Act, adhering instead to settled precedent which there is no reason to revisit.

As to foreign sales, Impression points to nothing in the Patent Act mandating exhaustion. It claims the decision below conflicts with this Court's interpreta-

tion of the *Copyright* Act in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). Nothing in that decision, however, indicates that the Court radically, but silently, reinterpreted the foreign reach of the Patent Act. All 12 court of appeals judges, the government, and the district court correctly rejected Impression's atextual reading of the statute and *Kirtsaeng*. Because there is no disagreement or confusion concerning Impression's extreme position of automatic worldwide exhaustion, review on this question is likewise unwarranted.

Finally, no disruptive change in the law or marketplace justifies certiorari. The court of appeals *reaffirmed* its own well-established and oft-cited precedents, both of which were based on authoritative holdings of this Court. Against this background of consistency, Impression's and its *amici*'s sweeping claims about the imminent demise of U.S. commerce and foreign trade ring hollow. These doomsday prophecies have not come to pass in the years since the court below issued the decisions it reaffirmed in this case. And the vast majority of *amici*'s purported concerns address aspects of patent law—implied license, repair rights, innocent infringement, contractual notice, and patent misuse—that are not implicated by this case. Indeed, Impression has *stipulated* that each domestic purchaser of Lexmark's single-use cartridges—from the original reseller to the end user—entered into a valid contract that limited its rights in the patented invention. Even if this Court were interested in the *amici*'s supposed concerns, this meticulous, nearly unanimous decision that created no split or conflict with other precedent would be a poor vehicle for addressing them.

COUNTERSTATEMENT OF THE CASE

A. Lexmark's Sale Of Patented Products

Lexmark develops, manufactures, and sells printers and toner cartridges, many of which are protected by patents. Pet. App. 9a. "Lexmark offers buyers a choice" in certain high-volume, professional-grade cartridges. *Id.* at 10a. Customers who buy regular cartridges pay full price and are not subject to any restrictions; they may dispose of or reuse the cartridge as they see fit. Alternatively, for roughly 20 percent less, customers who have no interest in reusing spent cartridges may buy otherwise identical "return program" cartridges. *Id.* These patented cartridges are designed for a single use, with a microchip that automatically disables printing once all toner is consumed. *Id.* at 11a. As the parties stipulated, the price discount for single-use cartridges reflects the more limited rights transferred to customers, *id.* at 10a-11a, and the value to Lexmark of remanufacturing its own spent cartridges.

Lexmark and "each of its end-user customers" enter into an "express and enforceable contractual agreement" to follow the terms of the limited, single-use license. Pet. App. 10a-11a. The single-use design of each cartridge is clearly displayed, in multiple languages, on the outside packaging of a return program cartridge and on the cartridge itself. Customers agree that, after the toner is depleted, they will not reuse the patented cartridge and will return it only to Lexmark for remanufacturing or recycling. Indeed, it is "undisputed that all end users receive adequate notice of the restriction supporting the discounted price before they make their purchases." *Id.* at 11a.

Despite the express limitations on these sales, however, third parties acquire spent cartridges, hack

their microchips, and create "unauthorized" replacements—actions beyond the scope of the limited patent rights Lexmark transferred. Pet. App. 11a. Companies like Impression gather, import, relabel, and resell these hacked cartridges for use with Lexmark printers. *Id.* at 11a-12a. Some of these are single-use "cartridges that Lexmark sold ... under the restriction denying authority for resale and reuse." *Id.* at 13a. Another group of cartridges at issue "consists of *all* cartridges that Lexmark sold abroad." *Id.*

B. This Litigation

Lexmark sued Impression (and other unauthorized remanufacturers) for patent infringement. Impression admits that Lexmark's valid patents cover the cartridges it imports and sells. Pet. App. 13a. Impression's only defense to infringement is the contention that Lexmark "exhausted its U.S. patent rights in the cartridges by its initial sales of them." *Id.*

In the district court, Impression moved to dismiss, arguing that this Court in *Quanta* and *Kirtsaeng* had silently overruled precedent from the court of appeals defining the exhaustion defense. Pet. App. 14a. The district court rejected Impression's position that any and all foreign sales exhausted Lexmark's U.S. patent rights, but agreed with Impression about Lexmark's domestic sales of single-use cartridges. *Id.* at 15a-17a. Impression then stipulated to final judgment of infringement for its resales of foreign cartridges, and the parties cross-appealed. *Id.* at 14a-18a. After Impression agreed that its contentions were foreclosed by circuit law, the court of appeals took the case en banc. *Id.* at 8a, 18a-19a; *contra* Pet. 2.

To enable its direct challenge to circuit precedent, Impression stipulated to a number of important

points. Pet. App. 13a. First, the lower price of single-use cartridges reflects limitations in the patent rights conveyed by Lexmark. *Id.* at 11a. Second, the single-use restrictions are valid and enforceable. *Id.* Third, "the adequacy of th[e] notice is unchallenged," so the case presents no questions that might arise "if a downstream re-purchaser acquired a patented article with less than actual knowledge of such a restriction." *Id.* at 14a. Fourth, Impression raised no argument "that the particular restriction at issue gives rise to a patent-misuse defense, constitutes an antitrust violation, or exceeds the scope of the Patent Act's express grant of exclusive rights over patented articles." *Id.*[1] And finally, "when Impression agreed to a judgment of infringement as to foreign-sold cartridges, it did not preserve an implied-license defense." *Id.* at 18a.

Against this backdrop, the court of appeals ruled for Lexmark on both the domestic and foreign exhaustion questions, "reaffirm[ing] the principles of [its] earlier decisions" in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), and *Jazz Photo Corp.* v. *ITC*, 264 F.3d 1094 (Fed. Cir. 2001). Pet. App. 8a-9a. On the domestic side, Judge Taranto's opinion for 10 members of the court adhered to the rule "that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser, does not by that sale give the buyer, or downstream buyers, the resale/reuse authority that has been expressly denied." *Id.* at 8a. The court relied on the text of the Patent Act, which prohibits anyone "without authority" from making, selling, using, or

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[1] *Lexmark Int'l, Inc.* v. *Static Control Components, Inc.*, 134 S. Ct. 1377 (2014), involved Lanham Act standing and has no bearing on the questions presented here. *Contra* Pet. 4.

importing patented goods, and carefully analyzed dozens of precedents across more than 100 years. Explaining this Court's long recognition of a patentee's authority to transfer fewer than all patent rights, the court found "no good reason that a patentee that makes and sells the articles itself should be denied the ability that is guaranteed to a non-practicing-entity patentee" and "[n]o precedent" requiring such a strange regime. *Id.* at 41a.

On the foreign sales issue, the court unanimously rejected Impression's position that *Kirtsaeng*'s consideration of foreign *manufacture* under the Copyright Act silently decided the question of foreign *sale* under the Patent Act. Rather, the court agreed that the territorial nature of the Patent Act means that the sale of a patented product in another jurisdiction can, but does not necessarily, transfer rights under U.S. patent law as well. Pet. App. 8a-9a. To that end, a "buyer may still rely on a foreign sale as a defense to infringement," but "[l]oss of U.S. patent rights based on a foreign sale remains a matter of express or implied license"—a defense not raised by Impression in this case. *Id.* at 9a, 104a.

Judge Dyk filed a dissent that Judge Hughes joined. For domestic sales, the dissent largely agreed with Impression's position that patentees, unlike licensees, necessarily lose all rights when they sell a patented article. Pet. App. 105a-106a. For foreign sales, the dissent disagreed with Impression's position and would have "retain[ed] *Jazz Photo* insofar as it holds that a foreign sale does not in all circumstances lead to exhaustion of United States patent rights." *Id.* at 106a. The dissent agreed with the government's contention that patentees should be able to show that they "explicitly reserved the United States

patent rights" in a foreign transaction to avoid exhaustion in the United States. *Id.*

REASONS FOR DENYING THE PETITION

Impression requests review and a ruling that all patentee sales anywhere are necessarily unconditional, extinguishing all U.S. patent rights in a product no matter what limits the patentee-seller and purchaser agree to. On the law, Impression bypasses the heart of the court of appeals' analysis by disregarding § 271 of the Patent Act, which controls the scope of the exhaustion defense, and by misreading this Court's precedent. On the policy, the alleged importance of the questions presented is based on fanciful prognostications, most of which are not implicated by the stipulated facts of this case or the holding tailored to those facts, and none of which have materialized in the decades during which the principles reaffirmed below have been the law.

I. THE COURT SHOULD DENY REVIEW OF THE FIRST QUESTION PRESENTED CONCERNING DOMESTIC SALES.

Lexmark sells some printer cartridges with unlimited use rights and some cartridges (for a lower price) subject to a valid and enforceable single-use restriction. For the latter, the parties agree that Lexmark could have achieved the same result by licensing the right to make and sell single-use cartridges to another entity. By a vote of 10 to 2, the court of appeals confirmed the ability of Lexmark and its customers to agree on the scope of the "authority" that a sale, like a license, conveys to buyers. Further review of that decision is not warranted.

A. The Court Of Appeals' Decision Is Consistent With The Precedents Of This Court And The Court Of Appeals.

1. The court of appeals reaffirmed that "a patentee may preserve its § 271 rights when selling a patented article, through clearly communicated, otherwise-lawful restrictions, as it may do when contracting out the manufacturing and sale." Pet. App. 40a. That holding "follows naturally" from Congress's decision to define patent infringement as the "sale or use of a patented article 'without authority,'" because "a clear denial of authority leaves a buyer without the denied authority." *Id.* (citing 35 U.S.C. § 271(a)).

It is also fully consistent with longstanding precedent of this Court and the court of appeals. See, *e.g.*, Pet. App. 41a-56a. Nearly 150 years ago, this Court held in *Mitchell* v. *Hawley* that a patentee could convey limited rights to a licensee, and that the licensee could convey to another no more than it received from the patentee. 83 U.S. (16 Wall.) 544, 550 (1872). As a result, after the licensee sold patented products to end-users, those end-users could be liable for patent infringement if their use of the products went beyond the authority the patentee had conveyed. *Id.* at 549-50. Although *Mitchell* "stated the exhaustion principles in terms ... applicable to patentee sales," and was soon "invoked ... in a patentee-sale case," Pet. App. 42a-43a, Impression's petition does not even mention it.

Decades later, *General Talking Pictures* relied on *Mitchell* to "squarely h[o]ld ... that a patentee could preserve its infringement rights against unauthorized uses by restricting manufacturing licensees' authority to sell for such uses." Pet. App. 43a. The conditions at issue concerned how patented amplifiers could be used. The patentee licensed another compa-

ny to make and sell amplifiers for private use only, but the licensee sold the amplifiers for commercial use. This Court confirmed that the purchaser, having never obtained the patentee's authority to engage in such use, had no "authority" under the patent, *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 304 U.S. 175, 181, *opinion on reh'g*, 305 U.S. 124 (1938), and could therefore be held liable for patent infringement. Pet. App. 43a-44a (describing *Gen. Talking Pictures*).

Almost 25 years ago, the court of appeals held that the text of the Patent Act, and the holdings of *Mitchell* and *General Talking Pictures*, afforded a patentee that makes and sells patented articles itself—rather than licensing those rights to someone else—the same ability to transfer fewer than all patent rights in a patented article. *Mallinckrodt*, 976 F.2d at 704-07 & n.6. *Mallinckrodt* concerned a patentee's sale of medical devices subject to a single-use-only restriction. Analyzing this Court's precedents, the court of appeals recognized that the facts of *General Talking Pictures* involved licensee rather than patentee sales, but "discern[ed] no reason" why the outcome should turn on that "formalistic distinction[]." *Id.* at 705. The court of appeals has repeatedly upheld that principle in the ensuing quarter century, including in another *en banc* decision. Pet. App. 30a (citing cases). The decision below correctly did so once more, understanding that no decision of this Court or of the court of appeals is contrary to or conflicts with that holding. *Id.* at 26a, 49a-50a.

2. Before the court of appeals, Impression accepted "at oral argument [that] it is undisputed that no Supreme Court decision has involved a single-use/no-resale restriction on a patentee's sale and found the restriction insufficient to preserve the patentee's infringement rights against a buyer engaging in the

forbidden reuse or resale." Pet. App. 49a. Yet Impression now argues to the contrary that the decision below "squarely conflicts with this Court's consistent teaching regarding the scope of the exhaustion doctrine." Pet. 2. Despite its hyperbole, see *id.* at 10 ("wholly inconsistent with this Court's precedent"), Impression fails to engage the court of appeals' extensive analysis showing that its decision is fully consistent with this Court's precedents.

Impression's domestic-sales argument boils down to this: "at least since 1853," every single time a patentee sells a patented article, the patentee necessarily and automatically transfers *all* patent rights associated with that article. Pet. 10-18. That result is mandated, according to Impression, "no matter how clearly the patentee states an otherwise-lawful restriction on what authority is being conferred and what authority is being withheld." Pet. App. 33a-34a. Impression's supposed support for this broad assertion cannot withstand scrutiny.

First, Impression selectively quotes from this Court's decisions to insist that this Court has "repeatedly" articulated Impression's all-sales-fully-exhaust rule. Pet. 10-14. But Impression never confronts the court of appeals' detailed discussion of these decisions and the specific context for the relevant statements. After cautioning that "[c]ontext is particularly important" in analyzing what earlier decisions do and do not hold, the court of appeals devoted 25 pages to explaining why Impression's position is wrong, walking carefully through dozens of this Court's decisions, including every case Impression misrepresents in its petition. Pet. App. 27a-29a, 35a-37a, 39a-56a. Compared to the litany of reasons the court of appeals gave for its adherence to circuit and Supreme Court precedent, Impression's bullet points

do not remotely establish a conflict warranting this Court's review.

Impression all but admits its cramped view of this Court's holdings when it suggests that their context does not matter because the decisions did not "qualif[y]" certain broadly-worded statements as *dicta*. Pet. 15. As the court of appeals observed, and this Court well knows, "general expressions, in every opinion, are to be taken in connection with the case in which those expressions are used." Pet. App. 39a (quoting *Cohens* v. *Virginia*, 19 U.S. (6 Wheat.) 264, 399-400 (1821) (Marshall, C.J.)). And here, the court of appeals appreciated that the "body of precedent contains no decision against a patentee's infringement assertion in the present circumstances, and [so] the decisions on related circumstances require careful reading to determine the best understanding of what issues the Court actually decided." *Id.* at 39a-40a & n.8. It is not conventional, to say the least, for this Court to contemporaneously declare whether a particular statement is *dictum*.

Next, Impression contends that "to the extent that this Court's early cases could be viewed as unclear," the decisions in *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942), and *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617 (2006), "together preclude a conditional sale exception to patent exhaustion." Pet. 10, 14-16. The court of appeals considered and rejected Impression's attempts to over-read those two cases. Neither case poses any conflict with the court's decision, let alone "compels rejection" or further review of it. Pet. 14-16.

Quanta was "at least two steps removed from the present case": "[t]here were no patentee sales, and there were no restrictions on the sales made by the licensee." Pet App. 30a-37a. Impression's contrary as-

sertion that *Quanta* is on point relies entirely on this Court's statement that "the initial authorized sale of a patented item terminates all patent rights to that item." See, *e.g.*, Pet. 3, 15-17. In Impression's view, that means that "any sale of a patented article by a patentee, even when the rights granted are expressly restricted, is automatically an 'authorized sale,' causing the patentee to lose all § 271 rights in the item sold." Pet. App. 33a; see also Pet. 15-17 (patentee sale is "in all cases" an initial authorized sale that triggers complete exhaustion). But that is an "extraordinary doctrinal consequence" to glean from the phrase "authorized sale." Pet. App. 34a. Indeed, the phrase itself does not answer the fundamental question of *what* a particular sale has authorized, or why the answer to that question must always be "relinquishment of all patent rights." *Id.* at 38a. Properly unwilling to "read too much into the Court's use of the phrase 'authorized sale,'" the court of appeals determined that "[f]ull analysis of the relevant legal context," including "statutory, precedential, and other considerations," was necessary. *Id.* at 37a-38a. Impression's elevation of two out-of-context words from *Quanta* ("authorized sale") over the court of appeals' "full analysis" establishes no conflict justifying certiorari.

Nor does *Univis* present any conflict. That case, the court of appeals explained, "did the opposite of suggesting that the distinction matters" as between patentee and licensee sales. Pet. App. 37a. "[T]he most the Court ruled, even as to patent law all by itself, was that a vertical price-control restriction was ineffective to preserve patent rights after sales of articles embodying the patents." *Id.* at 54a-56a.

In response, Impression insists that the court of appeals misread *Univis* because the decision "was *not*

limited to price restrictions" "[i]n addressing the enforceability under the patent laws of post-sale restrictive conditions." Pet. 14-15. This Court repeatedly made clear, however, that its holding turned on the validity of a patentee's ability to "control the price" of patented products. 316 U.S. at 249; see also, *e.g.*, *id.* at 250 (same); *id.* at 251 (analyzing "added stipulation by the patentee fixing resale prices"); *id.* at 252 ("control[ling] the price ... would extend his monopoly"); *id.* ("price fixing features"). If that were not enough, the Court's concluding paragraph leaves no doubt: it rejected appellees' attempt to salvage other "features of their licensing system" because, even "assum[ing] that such restrictions might otherwise be valid," and "even though some of [the] features, independently established, might have been used for lawful purposes," they were too "interwoven with and identified with the price restrictions" that controlled the disposition. *Id.* at 254. The court of appeals thus correctly recognized that *Univis* is inapposite.

Impression's assertion that "*Quanta* confirmed that *Univis* 'governs' patent exhaustion as a general matter," Pet. 15, is disingenuous. *Quanta* merely stated that "*Univis* governs *this case*"—not all of patent exhaustion—because both cases assessed how closely related the product sold was to the patented invention. 553 U.S. at 631-35 (emphasis added); see also Pet. App. 37a.

The bottom line: the decision below is not contrary to any precedent of this Court or the court of appeals. Pet. App. 26a, 40a-41a, 49a-50a.

B. The Court Of Appeals' Decision Is Correct.

Far from presenting any conflict with existing law, the decision below correctly applies longstanding

precedent to the facts of this case. The basic exhaustion rule is that patentees can transfer some or all of their rights within the scope of the patent but cannot expand the patent monopoly. Thus, "a patentee-made or patentee-authorized sale of a patented article ... *presumptively* grant[s] 'authority' to the purchaser to use it and resell it," but a patentee and purchaser may also agree to a more limited sale conveying less than complete authority to the purchaser. Pet. App. 40a-41a. At the same time, patentees cannot *expand* their rights by attaching conditions that exceed the scope of the patent grant; contract and antitrust law limit patentees' ability to wield market power or to transfer or misuse rights. *Id.* at 29a.[2]

1. This petition presents no question of contract violation, patent misuse, or antitrust concern. "Impression has not contended that the particular restriction at issue gives rise to a patent-misuse defense, constitutes an antitrust violation, or exceeds the scope of the Patent Act's express grant of exclusive rights over patented articles." Pet. App. 14a. The only question is whether a clearly communicated, otherwise-lawful restriction is unenforceable simply because it occurs in the context of a sale by the patentee rather than a license. It is not.

The court of appeals began its analysis with the statute, the current version of which was enacted in 1952, but which reflected what courts had "consistently understood infringement to mean." Pet. App. 7a, 20a-25a, 40a-41a. In particular, § 271 defines

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[2] In *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), the patentee expanded its rights by imposing an otherwise-*un*lawful restriction. Pet. App. 36a-37a, 53a-54a. The Court's subsequent rejection of *Dick* "did not rule that *all* restrictions on a patentee's sale were ineffective to preserve the patentee's patent-law rights." *Id.*; *contra* Pet. 13-14.

what constitutes patent infringement based on whether the alleged infringer proceeds "without authority." 35 U.S.C. § 271(a). That language means something: "Unless granting 'authority' is to be a legal fiction, a patentee does not grant authority by denying it." Pet. App. 41a. Remarkably, considering its centrality to the reasoning below, the petition never even discusses the "without authority" text.

Recognizing that an "exhaustion rule should fit rather than contradict the statutory text," the court of appeals then considered whether any precedent required Impression's counter-textual rule. Pet. App. 41a-56a. Finding none, the court concluded the opposite: "the best lesson to draw from th[at] precedent[] ... is that a patentee may preserve its patent rights by otherwise-proper restrictions when it makes and sells patented articles itself and not only when it contracts out manufacturing and sales." *Id.* at 56a. In sum, "[a] sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the 'authority' to engage in the use or resale that the restriction precludes." *Id.* at 26a.

2. Impression argues that the court of appeals' holding "eviscerates" a supposed "settled distinction in patent law between transfers of title and licenses." Pet. 10, 16-18. That erroneous proposition does not justify further review.

As explained above, Impression extracts its rule from the phrase "initial authorized sale" that appears in some of this Court's cases. But that begs the question of what was authorized, and does not suggest or support a distinction between sales and licenses. *Supra* 11-12. Impression's proposed distinction between what can be authorized by sales versus licenses is pure *ipse dixit*. Impression declares, for example, that

the ruling below "would render the patent exhaustion doctrine meaningless, because the patentee could avoid the doctrine entirely by specifying a restriction in connection with the first sale." Pet. 18. A *contractual* limitation on patent rights, of course, requires the purchaser's agreement—hardly a "meaningless" step. In any event, a patentee can also "avoid the doctrine"—by which Impression presumably means transfer subject to clearly communicated, otherwise-lawful conditions—by simply licensing the right to make and sell the articles under those conditions. Impression provides no principled basis for concluding that a patentee may not achieve in one step (by making and selling itself) what it can undeniably achieve in two (by licensing some but not all patent rights to a third party, who then sells goods embodying only those rights). See Pet. App. 26a.[3]

C. This Question Has Been Raised And Rejected Numerous Times.

The petition points to the government's persistently fruitless attempts to rewrite the exhaustion doctrine as a reason to grant certiorari. Pet. 18-21. That is backwards: a consistent refusal to adopt Impression's position counsels in favor of *denying* the petition because the argument has been aired before without success, and the petition identifies no drastic change in the law or other reason to change course.

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[3] Impression also suggests the decision below is inconsistent with the common law's disfavoring of restraints on the alienation of chattels. Pet. 22-23. But the Patent Act controls in the event of a conflict, and here there is no conflict with a common-law rule that applies only to unrestricted sales. Pet. App. 56a-59a. Indeed, Impression's assertion would apply equally to licenses, defeating authority Impression concedes patentees retain.

At least as early as the 1930s, the government unsuccessfully urged this Court that a patentee should not be permitted "to control the use of the patented article" either "by license or by the terms of sale." U.S. Br. at 32, *Gen. Talking Pictures*, 1938 WL 39344. The Justice Department then tried and failed to convince Congress to "unconditionally outlaw" limitations on, among other things, the production and use of patented articles. 4 *Verbatim Record of the Proceedings of the Temporary National Economic Committee* 641-42 (July 17, 1939). Then came a series of requests that this Court revisit cases like *General Talking Pictures*. See, *e.g.*, U.S. Br. at 70 & n.32, *Ethyl Gasoline Corp.* v. *United States*, 1939 WL 48829 (citing the *General Talking Pictures* dissent to argue "a need exists to curtail the rights of a patentee to insert in license agreements restrictive provisions"); U.S. Br. at 33-40, *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 1950 WL 78703 ("The Rule of the General Talking Pictures Case Should Be Reexamined"). Again, this Court rejected the government's invitations to revisit settled law.

More recently, the government has apparently accommodated itself to the precedential effect of *General Talking Pictures*, and so has shifted to arguing that there is some doctrinal difference between what a patentee can do through a sale and what a patentee can do through a license. Pet. App. 26a. In *Quanta*, after *Mallinckrodt* was "centrally" featured in the court of appeals' decision under review, the government's brief asked this Court to "repudiate[]" *Mallinckrodt*. *Id.* at 32a; see U.S. Br. at 20-24, *Quanta*, 2007 WL 3353102. In response, the Court "said nothing." Pet. App. 32a. The government tried again in *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766

(2013), see U.S. Br. at 30-33, *Bowman*, 2013 WL 137188, but the result was the same.

This Court recently explained that when precedent implicates rules of "property (patents) and contracts (licensing agreements)" on which parties rely to structure their affairs, courts should be especially wary of overturning settled expectations. *Kimble* v. *Marvel Entm't, LLC*, 135 S. Ct. 2401, 2410 (2015). The application of exhaustion doctrine to patentee sales is just such a rule. This Court and the court of appeals have heard Impression's argument numerous times and have never adopted it. And patentees and their counterparties have, for decades, ordered their sales, licenses, and investments around the rules the court of appeals reaffirmed. Impression offers no compelling reason or changed circumstance for this Court to now consider whether to unsettle such firmly established precedent.

D. The Court Of Appeals' Decision Threatens No Grave Consequences Warranting This Court's Intervention.

The policy contentions Impression and its *amici* advance are both misguided and not implicated by the court of appeals' decision in any event. Pet. 21-23.

To begin with, Impression and *amici* spill the most ink asserting that markets will "grind to a halt" and downstream purchasers will be hamstrung and unduly exposed to the risk of infringement liability. *Id.* at 1, 17-23; see also, *e.g.*, Intel Br. 18-20 (worrying about PEZ candy dispensers); Costco Br. 2-3; AMDR Br. 13-14. These claims are baseless.

As for the first, the decision below reaffirmed the court of appeals' own decades-old precedent, which was itself based on this Court's cases dating back even further. Pet. App. 59a-60a. Commerce has not

ground to a halt, and there is no reason to think it will suddenly do so now.

As for the risk of exposure to downstream purchasers, any concerns about notice, contract enforceability, and consumer expectations are not implicated by this case. The court below did not bless any "unilateral pronouncements," "sticker notice," or "post-sale restrictions otherwise unenforceable under contract law." Profs. Br. 2, 12, 17-18. Indeed, the court could not have done so because the parties *stipulated* that the single-use limitations represent a valid and enforceable contract, for which each counterparty had valid notice. Pet. App. 11a, 14a. The record in this Court, therefore, indicates that downstream purchasers *do* have notice of restrictions on the products, *id.* at 26a, and any questions about consumer surprise and constructive knowledge, *e.g.*, Auto Care Br. 3, are not presented here. If those concerns warrant review, they should be addressed in a case with a record that presents them. This is not that case.

Other contentions fare no better. For example, the decision threatens no "dramatic" "anticompetitive implications," Pet. 22, because patentees can achieve the same results through licenses. Pet. App. 26a; see also *id.* at 62a (more flexible regime can be procompetitive). Nor does it allow patentees to secure more than one "reward" for their patents, Pet. 21, because the single-use cartridges' reduced prices reflect the value of what is conveyed, Pet. App. 11a. Lexmark's pricing structure does not produce double recoveries for the same reason that a patentee who leases a product does not reap more than one "reward" just because it might be paid more than once, or more in total than if it sold the product unconditionally.

Recognizing that Congress can best assess these contentions, the court of appeals could "say only that the amicus presentations [on both sides] g[a]ve [it] no reason to depart from the application of § 271 [it] derive[d] from the statute and precedent." Pet. App. 60a. Repetition of the same policy arguments here does not justify review by this Court.

II. THE COURT SHOULD DENY REVIEW OF THE SECOND QUESTION PRESENTED CONCERNING FOREIGN SALES.

The petition identifies no basis on which this Court should review, much less disturb, the decision below with respect to foreign sales. The court of appeals thoroughly, unanimously, and correctly rejected Impression's extreme position that any foreign sale always exhausts all U.S. patent rights. The well-established rule reaffirmed below—that foreign sales *may*, but do not *automatically*, exhaust U.S. rights—is consistent with the text and scope of the Patent Act, the precedents of this Court and the courts of appeals, the positions of the President and Congress, and prevailing commercial practices and trade policies. Impression's arguments have not persuaded a single judge. Its flimsy case for certiorari therefore rests on illusory tension with a 1628 English treatise, an 1885 district court ruling, and a 2012 interpretation of the *Copyright* Act. The parade of horribles imagined by *amici* turns on facts and claims wholly absent from this case and, in any event, has not come to pass under the longstanding precedent reaffirmed below.

A. The Court Of Appeals' Decision Is Consistent With The Precedents Of This Court And The Courts Of Appeal.

1. The decision below, and the court of appeals' decision in *Jazz Photo* it reaffirmed, adhere to the sole decision of this Court to address foreign sales and exhaustion. *Boesch* v. *Graff* held that the buyer of a patented burner in Germany lacked authority under U.S. patent law to import and sell the burner in the United States. 133 U.S. 697 (1890). The foreign sale, this Court squarely held, did not extinguish the U.S. patentee's rights under U.S. law to exclude others from making and selling the product here. *Id.* at 702. The Court recognized the separate foreign and U.S. rights at issue, expressly distinguishing the buyer's right to "make and sell" the article in Germany "under the laws of that country" from "the rights o[f] patentees under a United States patent." *Id.* at 703.

Impression and its *amici* highlight that the seller in *Boesch* was not authorized by the U.S. patentee to sell the burner. That was true, but irrelevant. The German sale was "authorized" by German prior-use law rather than the U.S. patentee. *Id.* at 702. Although the seller had the right to sell in Germany "under the laws of that country," his purchasers "could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent." *Id.* at 703. Impression emphasizes the Court's statement that the German buyer sought to "import th[e] [burners] to and sell them in the United States, *without the license or consent of the owners of the United States patent.*" Pet. 29 (quoting 133 U.S. at 702). What was lacking, however, was not consent to sell in Germany, where German law applied, but consent to sell in the United States, where U.S. law gave the U.S. patentee

authority to exclude the imports regardless of their lawfulness in Germany. *Boesch* therefore answers the precise question raised by Impression: a lawful sale abroad does not necessarily give the purchaser "authority" under 35 U.S.C. § 271(a) to make, sell, and import the invention here. Pet. App. 77a-78a.

For over a century, as the court of appeals exhaustively explained, U.S. courts have followed *Boesch* in rejecting automatic worldwide exhaustion—regardless of whether the U.S. patentee authorized or was compensated for the foreign sale.

- *Dickerson* v. *Matheson*, 57 F. 524, 527-28 (2d Cir. 1893), discussed *Boesch* in affirming an infringement finding after an authorized foreign sale that did not permit import into the United States. Pet. App. 91a-92a.
- *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897), quoted *Boesch* in barring import into the United States despite a lawful sale abroad. Pet. App. 92a.
- *Daimler Manufacturing Co.* v. *Conklin*, 170 F. 70, 72 (2d Cir. 1909), discussed *Boesch* in enjoining a car buyer, who had purchased in Germany, from using the car in the United States without a license from the U.S. patentee. The German sale—as in *Boesch*—could take the car "out of the monopoly of the German patent," but not "the monopoly of the American patentee who has not sold." *Id.*; Pet. App. 93a-94a.
- *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Engineering Corp.*, 266 F. 71, 77, 79-80 (2d Cir. 1920), cited *Boesch* in allowing the use of airplanes in the United States where the Canadian seller and British buyer

agreed to a global license that covered the United States. Pet. App. 94a-95a; see also SanDisk Br. 18 (discussing global license at issue in *Curtiss*).

- *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689, 692 (1923), cited *Boesch* in rejecting a rule of automatic worldwide *trademark* exhaustion. Pet. App. 84a.
- *Griffin* v. *Keystone Mushroom Farm*, 453 F. Supp. 1283, 1284-87 (E.D. Pa. 1978), analyzed *Boesch* in holding that the lawful purchase of U.S.-patented machines in Italy could not defeat the rights of the U.S. patentee in the United States, even though the patentee controlled both the Italian and U.S. patents. Pet. App. 95a-96a.
- *Sanofi, S.A.* v. *Med-Tech Veterinarian Products, Inc.*, 565 F. Supp. 931, 937-38 (D.N.J. 1983), distinguished *Boesch* on the ground that, unlike the U.S. patentee in *Sanofi* that validly parted with its patent rights through a sale in France, the U.S. patentee in *Boesch* "neither received compensation" from the German sale "*nor consented to its importation* in this country." (emphasis added). Pet. App. 96a-97a.
- *Jazz Photo Corp.* v. *ITC*, 264 F.3d 1094 (Fed. Cir. 2001), relied on *Boesch* in ruling that U.S. patent rights were not exhausted by the foreign sale of cameras that (like Impression's infringing cartridges) were reimported without authorization for sale into the United States. Pet. App. 64a-66a.
- *Fuji Photo Film Co.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005), specifically

> rejected Impression's "unauthorized sales" interpretation of *Boesch* in affirming the rule against automatic international exhaustion set forth in *Jazz Photo* v. *ITC*. Pet. App. 66a.

Notwithstanding this authority, the petition states that "a consistent line of patent cases" stretching "over a century" indicates that "a sale outside the United States authorized by the U.S. patentee has long been understood to exhaust U.S. patent rights." Pet. 24, 27. In support, the petition discusses only one such decision—*Holiday* v. *Mattheson*—a 130-year-old district-court outlier that predated *Boesch* and confronted the exhaustion question in terms of domestic law rather than territorially distinct patent rights. 24 F. 185, 185 (C.C.S.D.N.Y. 1885); Pet. App. 86a. The point of *Holiday*'s ruling, according to Impression, is that the "same exhaustion rule governing authorized domestic sales *also* applies to authorized sales abroad." Pet. 28. But Impression cites no authority for such broad-brush equivalence between foreign and domestic patent rights, because no such authority exists. There is simply no conflict, much less a real split, among the lower courts' application of this Court's holding in *Boesch* to reject Impression's proposed rule of automatic worldwide exhaustion.

Lacking any conflict with the rule of *Boesch*, the petition points to a decision that does not even cite *Boesch*—this Court's decision in *Quanta* v. *LG Electronics*. The petition states, bizarrely, that the "critical question for exhaustion purposes" is whether "an article can *practice* a U.S. patent outside the United States." Pet. 31. Impression does not and cannot explain why that question determines whether a foreign sale triggers exhaustion. The discussion in *Quanta* pertains to whether a product substantially embodies a method patent—an issue not implicated in this

case. Indeed, *Quanta* never mentioned *Boesch*—despite LGE's contention that exhaustion based on foreign sales was a question for remand. Pet. App. 66a n.14. There is no basis to infer that *Quanta* departed from exhaustion precedent in such an obtuse manner.[4]

2. Because patent-law precedents offer no conflict or other reason to grant review, Impression looks to this Court's interpretation of the Copyright Act in *Kirtsaeng*. Here, again, the petition mistakenly claims this Court *sub silentio* overruled its precedent in a case that did not present any question of patent exhaustion.

The question in *Kirtsaeng* was whether importation of copyrighted textbooks manufactured outside the United States infringed the publisher's rights under the Copyright Act, see 17 U.S.C. § 106(3), or was instead protected by the Act's first-sale provision, § 109(a). 133 S. Ct. at 1355-56. After examining whether a textbook printed and sold abroad was "lawfully made under" the Copyright Act, the Court concluded that textbooks printed consistent with the U.S. Copyright Act and sold in Thailand could be resold in the United States free of copyright restrictions. The ruling was based on § 109's distinct text, legislative history, and common-law background, in addition to its practical effects—none of which applies to Impression's infringing cartridge sales. *Id.* at 1358, 1364.

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[4] Indeed, the government in *Quanta* confirmed both that foreign sales were not at issue and that this Court had already "made clear" in *Boesch* "that a sale under a foreign patent in that foreign country does not exhaust the patent rights under the corresponding United States patent." U.S. Br. at 9 n.2, *Quanta*, 2007 WL 3353102 (citing *Boesch*, 133 U.S. 697).

Kirtsaeng addressed the text of the Copyright Act rather than Patent Act, and never mentioned patent law. That is not surprising, given that patent and copyright decisions are not interchangeable. *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 346 (1908). Under the Copyright Act, unlike the Patent Act, an owner's right to control importation is subsidiary to the distribution right. That is, one does not need "authority" from the owner to sell or import within the United States, *contra* 35 U.S.C. § 271(a), but may sell "without the authority of the copyright owner" under 17 U.S.C. § 109(a). See *Quality King Distribs., Inc.* v. *L'anza Research Int'l, Inc.*, 523 U.S. 135, 142 (1998). Critically, the relevant provisions of the Copyright Act impose no geographic limitation on the rights extinguished through a first sale, referring simply to the rights of an "owner of a copyright under this title" without respect to location. See *Kirtsaeng*, 133 S. Ct. at 1362; Pet. App. 66a.

Aside from these specific textual differences, patent and copyright infringement differ in ways central to the Court's analysis in *Kirtsaeng*. Pet. App. 73a-76a. Patent law remains a distinctly territorial regime under the Paris Convention in which a grant (the scope of which often differs substantially) must be obtained, maintained, and enforced independently in different jurisdictions. The rules for acquiring and infringing a copyright are largely harmonized across the 168 national parties to the Berne Convention. See *Golan* v. *Holder*, 132 S. Ct. 873, 878-79 (2012). And the copyright is not conferred by the positive law of individual countries, but inheres in the writing itself, immediately upon creation. Further, *Kirtsaeng*'s concerns about libraries and museums have no apparent analog in the patent realm, 133 S. Ct. at 1364-67, and concerns of user uncertainty are less acute given the

long and variable duration of a copyright in contrast to the readily determinable 20-year life of a U.S. patent. Issues such as fair use and parody, moreover, are unique to copyright. Thus, the concerns articulated in *Kirtsaeng* cast no equivalent doubt on the "geographical interpretation" that otherwise applies to the Patent Act. *Id.* at 1358.

Finally, the common-law considerations raised in *Kirtsaeng* are not implicated here. There the Court, having found that Congress intended no territorial limit on the Copyright Act's first-sale provision, found further support for the legislature's decision in Lord Coke's 1628 treatise. *Id.* at 1363. Such an exercise would be inapposite under the Patent Act, because that statute, and the cases interpreting its associated exhaustion doctrine, *e.g.*, *Boesch*, repeatedly and expressly "mak[e] ... geographical distinctions," *contra* 133 S. Ct. at 1363. Congress's statutory commands trump any interpretive influence common-law rules might otherwise have when a statute's territorial reach is less clearly circumscribed. Whatever value a 1628 English treatise may have had in bolstering *Kirtsaeng*'s conclusion that Congress did not intend to geographically limit the Copyright Act's statutory first-sale doctrine, it finds no purchase in the analysis of the patent exhaustion doctrine's plainly territorial reach.

B. The Court Of Appeals' Decision Is Correct.

Impression's petition is, at bottom, a request for error correction that identifies no error. The careful analysis below is demonstrably correct under the Patent Act's text and precedent. "[W]hoever *without authority* makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention ... infringes

the patent." 35 U.S.C. § 271(a) (emphasis added). The patentee possesses a statutory "right to exclude others" from taking these steps. *Id.* § 154(a).[5] Under the exhaustion doctrine, however, an unrestricted sale grants the buyer the "authority" to use or sell a product. By exhausting the patent rights, the sale "eliminates the legal restrictions on what authorized acquirers 'can do with an article embodying or containing an invention'" whose sale the patentee authorized. *Helferich Patent Licensing, LLC* v. *N.Y. Times Co.*, 778 F.3d 1293, 1301 (Fed. Cir. 2015) (quoting *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 & n.2 (2013)); see Pet. App. 71a-73a.

The foreign sale of a product patented in the United States does not "eliminate[] the legal restrictions" imposed by the U.S. patent, *id.*, because the U.S. patent right does not stand in the way of the product's sale or use abroad in the first place. U.S. patents have no force in foreign countries. *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972). The Act speaks in expressly territorial terms: it confers exclusive rights "throughout the United States," bars importation "into the United States," and establishes liability for infringement "within the United States." 35 U.S.C. §§ 154(a)(1), 271(a). The absence of corresponding statutory rights or limitations in foreign jurisdictions reflects obligations, dating to the 1883

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[5] Impression insists "there is no statutory language to interpret" regarding foreign sales and exhaustion. Pet. 26 (emphasis omitted). And only one *amicus* bothers to discuss the statute—though it contends that exhaustion is a free-standing, judge-made doctrine that can trump Congress's text. Profs. Br. 2-3, 7-8. Basic separation-of-powers principles, however, underscore that the contours of the exhaustion defense must be consistent with and subordinate to the text of the Patent Act. *See* Pet. App. 24a (citing *Octane Fitness, LLC* v. *ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755-56 (2014)).

Paris Convention, under which the legal force of a patent issued in one country is limited to that country.[6] Absent authorization from the patentee, a foreign sale simply does not implicate U.S. patent rights. J. Erstling & F. Struve, *A Framework for Patent Exhaustion from Foreign Sales*, 25 Fordham Intell. Prop. Media & Ent. L.J. 499, 525 (2015) ("because U.S. patent law has no effect outside U.S. territory, the buyer in a foreign jurisdiction can already make, use, sell, and offer for sale the invention claimed in the U.S. patent without the need for any permission from the U.S. patent holder.") (footnote omitted).

The price a patentee receives for a foreign sale is compensation for lifting any applicable foreign restrictions. The reward available under the Patent Act, meanwhile, "gives patentees the reward available from American markets." Pet. App. 76a; *id.* ("A patentee cannot reasonably be treated as receiving that reward from sales in foreign markets, and exhaustion has long been keyed to the idea that the patentee has received its U.S. reward."). Given the vastly different nature of patent grants and enforcement in different countries and markets, the value conferred on patented inventions by foreign laws may vary greatly from the value of that protection in the United States. *Id.* at 78a-79a (citing U.S. Br. 15-16); *id.* at 134a ("the country-to-country differences in pa-

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[6] Paris Convention for the Protection of Industrial Property, art. 4*bis* (Mar. 20, 1883) ("Independence of Patents Obtained for the Same Invention in Different Countries: Patents applied for in the various countries of the Union ... shall be independent of patents obtained for the same invention in other countries...."); *Voda* v. *Cordis Corp.*, 476 F.3d 887, 898-99 (Fed. Cir. 2007) (Paris Convention "clearly expresses the independence of each country's sovereign patent systems and their systems for adjudicating those patents.").

tent laws, and the different economic choices patentees must make as a result, suggest that patentees should be able to reserve their U.S. patent rights when making or authorizing foreign sales") (Dyk, J., dissenting). Yet Impression and its *amici* would throw off this longstanding rule and require every sale anywhere in the world to convey—and include compensation for—U.S. patent rights. Effectively requiring patentees to price the value of U.S. patent rights into every foreign sale would dramatically intrude on the authority of other nations to balance innovation and access in a manner tailored to their own markets.

No principle of U.S. patent law or any patent treaty requires such a disregard of national boundaries in favor of a single worldwide market in which foreign purchasers would be forced to pay for U.S. rights they may not want. And Impression has garnered no judicial or governmental support for its extreme position that any sale anywhere always exhausts U.S. patent rights. See Pet. App. 127a (collecting cases in which "the authorized foreign seller clearly reserved U.S. rights, [and] there was no exhaustion.") (Dyk, J., dissenting); *id.* at 158a (because "the patent exhaustion doctrine is territorial," it applies only if "the authorized first sale ... occurred in the United States") (Barrett, J., S.D. Ohio); U.S. En Banc Br. 14 ("patent law is territorial and ... sales consummated under foreign law do not necessarily convey rights under United States patent laws"). The majority, dissent, district court, and government position below all accept that foreign sales *may* extinguish U.S. patent rights; the question is simply the way in which that authority is manifested. Impression tries to bootstrap the government's rejection of its position into a basis for review, Pet. 32, but that disagreement is not presented

in this petition, which merely advances Impression's own idiosyncratic view of automatic worldwide exhaustion.[7]

C. The Court Of Appeals' Decision Threatens No Confusion Or Disruption Warranting This Court's Intervention.

1. Despite the protests of Impression and its *amici*, the ruling below signals no confusion and no realistic prospect of confusion in the application of the Patent Act to foreign transactions. The thorough and consistent treatment of this question in the court of appeals—at least since *Jazz Photo* issued in 2001, and likely much earlier—means no patentee or purchaser would reasonably assume that *all* foreign sales exhaust U.S. patents. The sirens sounded by *amici* eager to avoid U.S. patent protections fail to resonate where the court merely affirmed existing precedent.[8]

To the extent these policy objections have any purchase, moreover, they are better directed to Congress. The economic, trade, and foreign policy consequences

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[7] The pronouncements of the political branches outside litigation are fully consistent with the decision below. Congress amended the Patent Act to give patentees authority to bar importation of a patented invention into the United States, 35 U.S.C. §§ 154(a)(1), 271. And the Executive Branch has consistently opposed automatic international exhaustion in multilateral trade negotiations and bilateral trade treaties, see Pet. App. 86a-88a.

[8] Litigants have invited this Court to review the rule of *Boesch* and *Jazz Photo* several times, but this Court has consistently declined. *See Benun* v. *Fujifilm Corp.*, 131 S. Ct. 829 (2010); *Jazz Photo Corp.* v. *ITC*, 536 U.S. 950 (2002). After deciding *Kirstaeng*, the Court declined even to vacate and remand *Ninestar Tech.* v. *ITC*, which had applied *Jazz Photo* to resolve a question of international patent exhaustion. 133 S. Ct. 1656 (2013).

of a worldwide-exhaustion regime would be vast and largely unknowable. The concerns for market segmentation acknowledged by *Kirtsaeng* in the copyright context would only be magnified where life-saving drugs and critical technology, rather than books and artwork, are at stake. Pet. App. 100a-101a. It is of course possible that a different regime could benefit specific manufacturers, trading partners, or consumer groups. Picking the winners and losers, however, is a task for which Congress is better equipped than the courts. See, *e.g.*, Sandisk Br. 16-17.

2. In any event, the facts and claims at issue in this case preclude consideration of the policy objections voiced most forcefully by Impression and its *amici*. Concerns of innocent infringement, the court below recognized, are a function of the strict-liability regime established by the Patent Act. And those concerns are properly viewed under the rubric of an implied (or express) license, rather than the exhaustion defense—a point the decision below (and this Court's decision in *Quanta*) took great pains to emphasize. See, *e.g.*, Pet. App. 73a, 90a, 98a. In this case, however, "Impression did not press any implied-license defense," *id.* at 63a, making this a poor vehicle to consider the practical effects of cross-border sales and licensing.

In addition, express licenses facilitate international commerce in a way that is untroubled by the decision below. Many international businesses—including *amici* in this case, *e.g.*, Costco Br. 6; Sandisk Br. 17—can protect their supply chains and intellectual property through the contracts, licenses, warranties, indemnification, and insurance that already characterize their cross-border transactions. Indeed, the supposed burden of tracing the provenance of patented

components in products sourced abroad, Costco Br. 3, 6-7, does not stem from exhaustion law; there is no dispute that, regardless of the first sale of the complete product, a purchaser must assure itself that each component was acquired from a seller with authority to transfer any applicable patent rights in order to avoid infringement liability, *id.* at 23-24. To the extent the ruling below affects such tracing concerns, or the efficacy of express or implied licenses, those issues should be addressed in a case in which they are actually presented.

CONCLUSION

For the foregoing reasons, the Court should deny the petition for certiorari.

Respectfully submitted,

TIMOTHY C. MEECE
V. BRYAN MEDLOCK, JR.
JASON S. SHULL
AUDRA C. EIDEM HEINZE
BANNER & WITCOFF, LTD.
Ten South Wacker Dr.
Chicago, IL 60606
(312) 463-5000

CONSTANTINE L. TRELA, JR.*
ROBERT N. HOCHMAN
SIDLEY AUSTIN LLP
One South Dearborn St.
Chicago, IL 60603
(312) 853-7000
ctrela@sidley.com

STEVEN B. LOY
STOLL KEENON OGDEN PLLC
300 W. Vine Street
Suite 2100
Lexington, KY 40507
(859) 231-3000

BENJAMIN BEATON
JOSHUA J. FOUGERE
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005
(202) 736-8000

D. BRENT LAMBERT
LEXMARK INT'L, INC.
740 W. New Circle Rd.
Lexington, KY 40550
(859) 232-2000

Counsel for Respondent

* Counsel of Record

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CORD
AND
RIEFS

No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

Counsel for Petitioner

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The divided, *en banc* Federal Circuit reaffirmed two rulings that dramatically expand patent rights—and did so notwithstanding intervening decisions of this Court that, at the very minimum, cast serious doubt on the correctness of the court of appeals' precedents.

The adverse practical consequences of the rulings below are described in detail by the broad range of *amici* in this Court, including trade associations and individual companies representing varied sectors of the economy; and nonprofit organizations and law professors concerned with the anticompetitive consequences of unauthorized judicial expansion of the patent monopoly.

Lexmark does not identify a "vehicle problem" or otherwise dispute that the questions are squarely presented in this case. Lexmark's opposition rests on two points.

First, it contends that the rulings below are not important because they simply reaffirm settled Federal Circuit precedent. That is wrong.

The Federal Circuit precedents invoked by Lexmark were anything but settled. That is demonstrated by the court of appeals' initial hearing *en banc* to determine whether its precedents should be overruled in light of this Court's intervening decisions. And the *amici* confirm that, in the real world, market participants typically have refrained from invoking the rights Lexmark claims were so well-settled.

Even if Federal Circuit precedent had been settled, moreover, that would provide no reason for denying the petition. This Court frequently reviews longstanding Federal Circuit interpretations of the

patent law that have significant practical consequences and arise frequently. See, *e.g.*, *Teva Pharm. USA, Inc.* v. *Sandoz, Inc.*, 135 S. Ct. 831 (2015); *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Second, Lexmark argues that the rulings below are correct. This dispute about the merits provides no reason to deny review. Moreover, both rulings are starkly inconsistent with this Court's decisions and with fundamental patent law principles.

The holdings below rest entirely on the conclusion that statements in several recent decisions of this Court constituted "dicta." But that analysis ignored the fundamental principle underlying the patent exhaustion doctrine: that intellectual property statutes must be interpreted against the backdrop of "the common law's refusal to permit restraints on the alienation of chattels." *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013).

Permitting a patentee to negate the first-sale exhaustion doctrine by adding a few words to a sales contract and thereby maintain control of the sold good indefinitely is directly contrary to this fundamental background principle. As is permitting a patentee to sell an article outright outside the U.S. but nonetheless control that article's subsequent sale and use domestically. Nothing in the text of the Patent Act indicates that Congress intended to override the common law rule.

I. The Conditional Sale Question Warrants Review.

The holding below—that a patent owner that transfers title to an article may nonetheless impose restrictions on all downstream purchasers and users enforceable under the patent law—rejects the

longstanding position of the United States that an authorized sale exhausts all patent rights. See Pet. 19-21. Lexmark's contention (Opp. 16) that this Court considered and rejected the government's position in *Quanta* and *Bowman* is frivolous.

Quanta reversed a Federal Circuit decision relying on *Mallinkrodt*'s conditional sale doctrine. This Court held that "[t]he authorized sale of an article * * * exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Quanta*, 553 U.S. at 638.

The Court did not expressly state that *Mallinkrodt* was no longer good law—but this Court generally does not itemize particular lower court precedents that cannot stand in light of its decisions; that is the job of the lower court. Certainly *Quanta*'s rule could not be more clearly inconsistent with *Mallinkrodt*.

The Federal Circuit in *Bowman* again invoked the conditional sale doctrine, stating that the patentee was free to contract out of the first-sale exhaustion rule. This Court affirmed on different grounds, holding that the first-sale exhaustion doctrine did not apply because the seeds in question had not been sold by the patent owner but rather were new seeds created from growing plants from the purchased seeds. *Bowman*, 133 S. Ct. at 1766-1767. Because this Court held there was no "first sale," it had no occasion to address the Federal Circuit's reliance on *Mallinkrodt* as an exception to the first-sale doctrine.

That question is squarely presented here.

A. This question is exceptionally important.

The holding below would produce dramatic consequences: any patent holder could completely eliminate the secondary market in its goods by including in the sales contract a clause barring resale of the article sold by the patentee. Intel Br. 18-19 (the ruling below "upends settled expectations and could allow patent holders to end secondary markets in patented goods"); see also Costco Br. 3.

Lexmark's response is that *Mallinkrodt* is a "decades-old precedent" and "[c]ommerce has not ground to a halt." Opp. 18-19. But, prior to the decision below, virtually no one in the marketplace relied on *Mallinkrodt*. Commentators thought that *Mallinkrodt* was wrong when it was decided (see, *e.g.*, AMDR Br. 11-12), and that it had been overruled by this Court's decision in *Quanta*. *Id.* at 17 (citing cases and articles agreeing that *Quanta* overruled *Mallinkrodt*); ACA Br. 12-13. Indeed, the district court *in this case*—expressly joining other courts—concluded "that *Mallinkrodt* was overruled by *Quanta* sub silentio." Pet. App. 154a.

The Federal Circuit's reaffirmation of *Mallinkrodt*, if permitted to stand, will thus significantly change marketplace reality. Patent holders will be confident that bans on the resale (or even reuse) of sold articles are fully enforceable against any downstream purchaser (or user)—no matter how many steps removed from the original sale.

Consumers will suffer from this destruction of secondary markets: "Secondary markets offer numerous social and economic benefits to consumers, such as placing lower-cost used goods on the market,

allowing purchasers to recoup some of their purchase cost at market rates, and protecting the environment by enabling reuse and recycling." Public Knowledge Br. 16. See also Costco Br. 10.

B. The "conditional sale" doctrine violates this Court' precedents.

Lexmark's main argument—that the decision below is correct (Opp. 8-18)—provides no reason to deny review. In any event, Lexmark is wrong.

Lexmark's analysis rests on the patent law's definition of infringement as the making, selling, or using of a patented invention "without authority." Opp. 8, 14-15 (citing 35 U.S.C. § 271(a)). But, as the dissent explained, "[t]hat reliance is misplaced" because "[p]atent exhaustion is a limit on the patentee's statutory right to control what purchasers can do with an article embodying or containing a patented invention." Pet. App. 119a-120a. See also IP Profs. Br. 6-9.

This Court has expressly acknowledged that principle: "[t]he doctrine of patent exhaustion limits a patentee's right to control what others can do with an article embodying or containing an invention." *Bowman*, 133 S. Ct. at 1766. The Court appended to that sentence a footnote quoting Section 271(a), to describe the control a patentee may exercise *absent* exhaustion. *Id.* at 1766 n.2.

Section 271(a) is satisfied here, because exhaustion requires an initial *authorized* sale. And Section 271(a) contains no language demonstrating Congress's intent to override the background legal principle reflected in the exhaustion doctrine.

Lexmark cannot find support in this Court's other cases. With respect to the long line of authority we

discuss (Pet. 10-13), Lexmark points to the decision below (Opp. 10-11). But that court merely tried to distinguish the cases on the facts—it could not find support for the conditional sales doctrine in those cases. Pet. App. 35a-36a. Rather, the lower court was forced to characterize this Court's statements endorsing first-sale exhaustion as "dicta." Pet. App. 118a-119a (dissent, criticizing majority's parsing of this Court's precedent as dicta).

Lexmark's affirmative argument is limited to two cases—*Mitchell* and *General Talking Pictures*. Opp. 8-9. Neither support its position.

In *Mitchell*, the Court stated that patent rights are exhausted when the patentee "has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it * * * without any conditions." 83 U.S. at 547. But, as the dissent below explained (Pet. App. 114a-116a), a "conditional sale" was understood as a sale that was contingent upon—and thus only complete after—the occurrence of a subsequent condition; it was not a sale of *limited* rights. See, *e.g.*, *Harkness* v. *Russell*, 118 U.S. 663, 666 (1886) (describing a "conditional sale" as a "mere agreement to sell upon a condition to be performed" in which title passes only when condition precedent is performed). See also Intel Br. 23 n.7; U.S. Fed. Cir. Am. Br. 11-12, 2015 WL 4112927. And any doubt is resolved by the numerous subsequent cases stating that a patentee cannot maintain a post-sale patent-based restriction.

Lexmark also misunderstands *General Talking Pictures*. Opp. 8-9. That case did not involve an authorized sale at all, because the first sale by the licensee was outside the terms of the license. Pet. 17.

Patent exhaustion, in all cases, requires an *initial* authorized sale. See also Pet. App. 120a-122a (dissent).

In any event, this question was put to rest in *Univis* and *Quanta*. See Pet. 14-16.

Lexmark tries to avoid *Univis* by arguing that *Univis* applies only to *price* restraints. Opp. 12-13. But the *Univis* Court, confronted with a variety of post-sale restrictions, stated in broad terms that "sale of [an article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, *control the use or disposition of the article*." 316 U.S. at 250 (emphasis added). And it repeated that broad formulation: "[N]either the Lens Company nor the Corporation, by virtue of the patents, could after the sale of the lens blank exercise any further control over the article sold." *Id.* at 252.

If the Court had meant to say that a patentee cannot control only the "price" of the article, it would have said so. It instead used far broader language.

Lexmark's reading of *Univis* is also illogical. Lexmark appears to recognize that *Univis* prohibits it from setting a minimum resale price for its products. If Lexmark cannot control resale price via the patent laws, how could it be empowered to prohibit *resale* altogether.

Quanta confirmed this understanding of patent exhaustion. See page 3, *supra*. As the dissent below recognized, the Federal Circuit's conditional sale doctrine "cannot be reconciled with the Supreme Court's recent decision in *Quanta*." Pet. App. 105a.

Lexmark's next argument—that the "basic exhaustion rule" allows patentees to "transfer some or

all of their rights within the scope of the patent" (Opp. 14)—restates the same meritless argument. And Lexmark is simply wrong in asserting that the majority's ruling works no expansion of patent rights; "patent exhaustion" has "limit[ed] the patent rights that survive the initial authorized sale of a patent item" for "over 150 years" (*Quanta*, 553 U.S. at 621), but under the decision below, any patentee can circumvent those limits.

Finally, Lexmark points to a patentee's ability to impose restrictions when it licenses an article (or licenses another to produce the article), claiming that it can impose the same restrictions when it sells the article. Opp. 15-16.

But patent law sharply distinguishes between a patentee's sale of a good embodying a patent rights to a counterparty, which exhausts patent rights, and a license permitting the counterparty to use (*i.e.*, rent) the article, which permits the patentee to continue to assert those rights because he continues to own the article. That distinction stems from the common law's rejection of post-*sale* restraints on chattels, which this Court has held to be incorporated into patent law through the exhaustion doctrine.

Lexmark also contends (without citation) that "the parties agree that Lexmark could have achieved the same result by licensing the right to make and sell single-use cartridges to another entity." Opp. 7; 15-16. That is false.

Exhaustion turns on whether there is an "initial authorized sale." Pet. 16-18. This concept is well-established. See *Bowman*, 133 S. Ct. at 1766; *Quanta*, 553 U.S. at 621. When a patentee sells its own

goods, it chooses the circumstances in which it will sell; that transaction is thus a "sale" and necessarily "authorized" by the patentee.

If the patentee licenses a third party to sell, the patentee can similarly restrict the circumstances in which the licensee is "authorized" to make a sale. Pet. 16-18. A sale is "authorized" only if it is within the scope of the license. *Ibid.*

But the effect of such a first sale is identical whether made by a patentee or licensee—no post-sale restriction is enforceable via the patent law. Lexmark therefore could not achieve its desired result via a licensing structure. Intel Br. 21-23. If Lexmark licensed a third party to manufacture cartridges, but conditioned the third party's right to sell on obtaining promises from purchasers that they would not resell the cartridges, Lexmark still could not invoke patent law remedies if those purchasers nonetheless resold the cartridges. (Lexmark, or the third party manufacturer, might have a remedy in *contract* against the purchasers who sold cartridges.)

In sum, review is plainly warranted to correct the Federal Circuit's dramatic expansion of the patent monopoly.[1]

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[1] Lexmark errs in invoking (Opp. 18) *Kimble* v. *Marvel Entm't, LLC*, 135 S. Ct. 2401 (2015), where the petitioner asked this Court to overrule *its own* past precedent. Here, the petition asks this Court to address an important issue decided by the court of appeals in a manner inconsistent with this Court's precedent.

II. The International Exhaustion Question Merits Review.

The majority below concluded that, notwithstanding this Court's decision in *Kirtsaeng* upholding international exhaustion in the copyright context, sales by the U.S. patent owner outside the United States do not exhaust U.S. patent rights. Compare *SCA Hygiene Products Aktiebolag* v. *First Quality Baby Products, LLC*, 807 F.3d 1311 (Fed. Cir. 2015) (laches remains a defense to patent infringement even though this Court held to the contrary with respect to copyright in *Petrella* v. *MetroGoldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014)), cert. granted, No. 15-927.

Again, the majority rejected the position advanced by the United States. Lexmark points out that the government's view—that there is a presumption that foreign sales exhaust U.S. patent rights absent a post-sale restriction to the contrary—differs from the more straightforward exhaustion rule that we advance. Opp. 30-31. But the divided Federal Circuit's rejection of the position advanced by the United States is compelling reason to grant review.

Indeed, Impression would prevail under the government's approach (which was adopted by the dissent). The government noted that it "is not aware of any indication in the record of this case that Lexmark expressly reserved any U.S. patent rights in making its foreign cartridge sales" (U.S. Br. 27) and Lexmark does not argue otherwise.

A. The issue is important.

The Federal Circuit's holding that foreign sales of patented articles *never* exhaust U.S. patent rights will have significant adverse consequences.

As *amici* demonstrate, products of all kinds contain dozens, if not hundreds, of components. In order to import such products, companies will now have to track the provenance of *every* sub-component and sub-sub-component within its products—magnifying costs borne by consumers. See Costco Br. 7-11; SanDisk Br. 14-15; Intel Br. 11; ASCDI Br. 10-11.

The Federal Circuit's rule will also chill innovation. Manufacturers frequently create new products by devising new combinations of and uses for existing components—but they can only justify investing in this process when they are confident that any patent rights in the relevant components have been exhausted. A rule against international patent exhaustion will discourage this kind of innovation. Costco Br. 9-10.

Finally, the rules governing copyright should accord with patent law, especially because many products contain both copyrighted and patented components. Pet. 34; IP Profs. Br. 6.

Lexmark's plea for deference to Congress relies on a faulty assumption—that the court below properly interpreted the common law and the Patent Act. Opp. 31-32. This Court should correct the Federal Circuit's wayward holding. *Then*, if Congress dislikes the results, it can legislate specific rules.

B. The decision below is wrong.

The decision below cannot be reconciled with *Kirtsaeng*. See Pet. 24-27.

The *Kirtsaeng* Court identified a *general* exhaustion principle, applicable to all forms of property, and held that it has no geographic limitation. It then went on to consider whether the text and structure of the Copyright Act somehow limited that general principle.

Lexmark cannot find the necessary limitation in the Patent Act. It again points to the use, in Section 271(a), of the term "authority." Opp. 26, 27-29. But patent exhaustion is an independent limitation on property rights—the term "authority" provides no evidence that Congress negated the common law rule. See, *supra*, 5.

Lexmark also argues that patent law is territorial. Opp. 27, 28-29. But it ignores that the same is true of copyright law. Pet. 27 n.3. Moreover, as *Quanta* established, the threshold test for application of exhaustion is not whether the article, when initially sold, would be *infringing* the patent—it is whether it would be *practicing* the patent. See Pet. 31-32. Because a good sold outside the United States *practices* the invention embodied in the patent, exhaustion applies.

Lexmark mistakenly relies on this Court's decision in *Boesch*. Opp. 21-22, 27. That case did not involve a sale authorized *by the U.S. patentee* (see IP Profs. Br. 22)—which is the relevant inquiry. *Quanta*, 553 U.S. at 636.

And Lexmark errs in asserting that "U.S. courts have followed *Boesch* in rejecting automatic worldwide exhaustion." Opp. 22-24. At most, a few decisions held that a patentee could preserve its U.S. rights *by expressly reserving them*. See *Dickerson* v. *Tinling*, 84 F. 192 (8th Cir. 1897); *Dickerson* v.

Matheson, 57 F. 524 (2d Cir. 1893); *Griffin* v. *Keystone Mushroom Farm*, 453 F. Supp. 1283 (E.D. Pa. 1978). The Federal Circuit *rejected* this argument.[2]

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

Counsel for Petitioner

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[2] Many courts adopted *complete* international exhaustion, a position also rejected by the Federal Circuit. Pet. 28 n.5.

RECORD AND BRIEFS

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No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC., PETITIONER

v.

LEXMARK INTERNATIONAL, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

IAN HEATH GERSHENGORN
Acting Solicitor General
Counsel of Record
BENJAMIN C. MIZER
Principal Deputy Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
ELIZABETH B. PRELOGAR
Assistant to the Solicitor General
MARK R. FREEMAN
MELISSA N. PATTERSON
Attorneys

Department of Justice
Washington, D.C. 20530-0001
SupremeCtBriefs@usdoj.gov
(202) 514-2217

QUESTIONS PRESENTED

1. Whether a U.S. patent owner may invoke patent law to enforce restrictions on the use or resale of a patented article after the first authorized sale of the article in the United States.

2. Whether and under what circumstances a U.S. patent owner may authorize the sale of a patented article in a foreign country, either under a foreign patent or otherwise in accordance with foreign law, while reserving its exclusive rights under U.S. patent law.

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In the Supreme Court of the United States

No. 15-1189

IMPRESSION PRODUCTS, INC., PETITIONER

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

INTEREST OF THE UNITED STATES

This brief is filed in response to the Court's order inviting the Solicitor General to express the views of the United States. In the view of the United States, the petition for a writ of certiorari should be granted.

STATEMENT

1. A U.S. patent confers on the patentee "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. 154(a)(1). Whoever does any of those acts "without authority" from the patentee infringes the patent. 35 U.S.C. 271(a). Patent infringement is a strict-liability tort; neither scienter nor contractual privity is necessary for liability. See *Commil USA, LLC* v. *Cisco Systems, Inc.*, 135 S. Ct. 1920, 1926 (2015).

The principle of patent "exhaustion," however, "delimit[s] the scope of the patent grant." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964) (plurality opinion). Under the exhaustion doctrine, also known as the "first sale" doctrine, "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008). A patentee who authorizes a sale of a patented article therefore cannot invoke patent law to enforce ongoing restrictions on the use or resale of that item. See *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 514, 516 (1917). Instead, the enforceability of downstream restrictions after an authorized sale arises only "as a question of contract, and not as one under the inherent meaning and effect of the patent laws." *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895).

Patent rights are further circumscribed by the territorial boundaries of the United States. The statutory provisions that delineate the patent grant and the conduct that constitutes infringement incorporate that geographic limitation. See 35 U.S.C. 154(a)(1) (patentee enjoys exclusive rights "throughout the United States"); 35 U.S.C. 271(a) (defining infringement to include specified conduct "within the United States"). No authority under a U.S. patent is required to make, use, or sell the patented invention outside the United States, and a U.S. patentee who desires to prevent such acts must "obtain[] and enforc[e] foreign patents." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 441, 456 (2007).

2. a. Respondent owns several U.S. patents related to printer toner cartridges, which respondent sells

both in the United States and abroad. Pet. App. 9a-10a. As relevant here, all of the cartridges that respondent sold in the United States, and some that it sold abroad, were subject to a "single-use/no-resale restriction," which prohibited buyers from reusing the cartridges after the toner ran out or transferring the cartridges to anyone but respondent. *Id.* at 10a. It is undisputed that the restriction is "an express and enforceable contractual agreement." *Id.* at 11a (citation and internal quotation marks omitted).

Petitioner acquired spent cartridges that respondent had initially sold both here and abroad and resold them in the United States after they had been replenished with ink. Pet App. 10a. Based on that conduct, respondent sued petitioner for direct and contributory patent infringement, alleging (i) a violation of the single-use/no-resale restriction on cartridges originally sold in the United States and (ii) unlawful importation of the cartridges originally sold abroad. *Id.* at 12a-13a.

b. The district court dismissed respondent's infringement claim involving cartridges originally sold in the United States, holding that the initial authorized sale of those cartridges exhausted respondent's patent rights in them. Pet. App. 140a-155a. The court acknowledged that, in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (1992), the Federal Circuit had permitted a patentee to invoke patent law to enforce a single-use restriction after an authorized sale. Pet. App. 146a-147a. The district court concluded, however, that *Mallinckrodt* was no longer good law. *Id.* at 142a-154a.

The district court refused to dismiss the infringement claim involving cartridges originally sold abroad.

Pet. App. 156a-169a. The court relied on the Federal Circuit's holding in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (2001) (*Jazz Photo*), cert. denied, 536 U.S. 950 (2002), that a foreign sale authorized by the U.S. patentee does not exhaust U.S. patent rights. Pet. App. 158a.

After the district court's rulings, the parties stipulated to a final judgment in petitioner's favor as to cartridges respondent had sold within the United States, and in respondent's favor as to cartridges respondent had sold abroad. Pet. App. 17a-18a.

c. Both parties appealed, Pet. App. 18a, and the Federal Circuit sua sponte ordered the case heard en banc, *id.* at 136a-139a. The en banc court of appeals held that neither the domestic nor the foreign sales had exhausted respondent's patent rights in the cartridges. *Id.* at 1a-104a.

The Federal Circuit reaffirmed *Mallinckrodt*'s holding that a patentee may sell an article in the United States while retaining patent-law rights to enforce "clearly communicated, otherwise-lawful restriction[s] as to post-sale use or resale." Pet. App. 26a; see *id.* at 26a-63a. The court relied on this Court's exhaustion decisions, which it understood to permit enforcement of similar restrictions following authorized sales made by a licensee. *Id.* at 41a-49a. The Federal Circuit read this Court's decisions to hold that patent rights are exhausted only when initial sales are "unconditional," meaning unaccompanied by any restrictions, *id.* at 41a-43a, or when a purported restriction "exceed[s] the legitimate scope of patent rights," *id.* at 27a-28a (citing *Mallinckrodt*, 976 F.2d at 704); see *id.* at 44a-56a.

The Federal Circuit also reaffirmed *Jazz Photo*'s holding that foreign sales do not exhaust U.S. patent rights. Pet. App. 63a-103a. The court recognized that "an express or implied license might be found based on the circumstances" of a particular sale, *id.* at 67a, but held that a foreign sale does not conclusively or presumptively confer any authority under the U.S. patent to import, use, or resell that article within the United States, *id.* at 64a. The court rejected petitioner's contention that this Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which interpreted a statutory provision that governs copyright exhaustion, required a rule of automatic international patent exhaustion. Pet. App. 67a-75a.

Judge Dyk, joined by Judge Hughes, dissented. Pet. App. 105a-135a. The dissenting judges would have held that this Court's patent-exhaustion decisions foreclose using patent law to enforce post-sale restrictions following an authorized sale in the United States. *Id.* at 105a; see *id.* at 106a-125a. They would have further held that a foreign sale authorized by the U.S. patentee does not automatically exhaust U.S. patent rights, but should trigger exhaustion if those rights are not "explicitly reserve[d]" at the time of the foreign sale. *Id.* at 125a; see *id.* at 125a-135a.

DISCUSSION

The petition for a writ of certiorari should be granted. For more than 150 years, this Court has held that, once a particular patented article has been sold in the United States by the patentee or with his authorization, the patent laws do not constrain the subsequent use or resale of that article. The Federal Circuit's decision misreads those precedents and would substantially erode the exhaustion doctrine.

The first question presented thus merits this Court's review.

This Court should also review the second question presented, which involves international patent exhaustion. The Federal Circuit correctly rejected petitioner's contention that a foreign sale *necessarily* exhausts U.S. patent rights in the sold article if the U.S. patentee authorized the sale. The court erred, however, in reaffirming its holding in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (2001) (*Jazz Photo*), cert. denied, 536 U.S. 950 (2002), that foreign sales *never* exhaust U.S. patent rights. Federal courts considering that issue before *Jazz Photo* coalesced around the rule that a U.S. patentee's authorization of a foreign sale exhausted its U.S. patent rights unless the patentee expressly reserved those rights. This Court should grant review and adopt that rule, which appropriately reconciles the important purposes of the exhaustion doctrine with the quintessentially territorial nature of patent law.

I. THIS COURT SHOULD REVIEW THE FEDERAL CIRCUIT'S HOLDING THAT POST-SALE RESTRICTIONS ON THE USE OR RESALE OF PATENTED ARTICLES ARE ENFORCEABLE UNDER PATENT LAW

The Federal Circuit held that post-sale restrictions on the use or resale of patented articles after their initial sale in the United States may be enforced against downstream purchasers through patent-infringement suits. Pet. App. 8a, 23a-63a. That holding conflicts with this Court's decisions, and its practical effect on commerce in patented goods is likely to be substantial. This Court's review is warranted.

A. 1. Since 1853, this Court has recognized that exhaustion principles limit the exclusive rights con-

ferred by U.S. patent law. See *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 549-550 (1853). Once a patentee authorizes a sale of a patented article, that article "passes outside" the patent's coverage "and is no longer under the protection of the act of Congress." *Id.* at 549. The authorized sale thus "exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942) (*Univis*); see *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013); *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) (*Quanta*); *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964) (*Aro*) (plurality opinion); *Boston Store* v. *American Graphophone Co.*, 246 U.S. 8, 25 (1918); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 508-518 (1917); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895); *Hobbie* v. *Jennison*, 149 U.S. 355, 361-363 (1893); *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873).

The lone exception to this Court's treatment of the exhaustion doctrine as a limit on the scope of the patent right was the short-lived decision in *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), which was overruled just five years later by *Motion Picture Patents*, 243 U.S. at 518. In allowing a patentee to invoke patent law to enforce use restrictions following an authorized sale, the Court in *A.B. Dick* reasoned that the "right to sever ownership and use is deducible from the nature of a patent monopoly," so that "[t]he property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified

purpose." 224 U.S. at 24-25. But the Court quickly reversed course in *Motion Picture Patents*, rejecting the principle "that, since the patentee may withhold his patent altogether from public use he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it." 243 U.S. at 514. "The defect in th[at] thinking," the Court explained, was its "failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding and rights which he may create for himself by private contract." *Ibid.*

Under this Court's longstanding approach, so long as the initial sale of a patented article is authorized by the patentee, restrictions on post-sale use or resale of that article are not enforceable through an infringement suit because the initial sale "carrie[s] [the article] outside the monopoly of the patent law." *Motion Picture Patents*, 243 U.S. at 516. Since *A.B. Dick* was overruled, this Court has rejected every attempt to invoke patent law to control the use or resale of an article after the first authorized sale in the United States. See, *e.g.*, *Quanta*, 553 U.S. at 637; *Aro*, 377 U.S. at 497-500 (plurality opinion); *Univis*, 316 U.S. at 244, 249-252; *Boston Store*, 246 U.S. at 25; *Motion Picture Patents*, 243 U.S. at 506-507, 516. Under a straightforward application of those precedents, exhaustion principles foreclose respondent's reliance on the patent laws to enforce a single-use/no-resale restriction against downstream purchasers of the cartridges that respondent sold in this country.

2. The Federal Circuit's justifications for its contrary holding are not persuasive.

a. The court of appeals inferred that "a patentee may preserve its [35 U.S.C.] 271 rights when itself selling a patented article" because Section 271(a) states "that a sale or use of a patented article 'without authority' is an infringement." Pet. App. 40a. It is true that the Patent Act of 1952, 35 U.S.C. 1 *et seq.*, unlike the Copyright Act of 1976, 17 U.S.C. 101 *et seq.*, (see 17 U.S.C. 109(a)), does not codify any exhaustion rule, and thus contains no discrete provision that squarely forecloses the Federal Circuit's approach. This Court has long held, however, that although an initial sale of a patented article requires authorization from the patentee, Section 271(a) does not empower the patentee to assert patent rights in that article after a lawful first sale has occurred. See, *e.g.*, *Aro*, 377 U.S. at 497 (plurality opinion) (exhaustion doctrine "delimit[s] the scope of the patent grant"). The Federal Circuit was not at liberty to disregard this Court's holdings based on its own assessment of Section 271(a)'s most natural meaning.

b. The Federal Circuit suggested that, under this Court's decisions, exhaustion would preclude enforcement only of restrictions on post-sale use or resale that are otherwise unlawful, such as resale-price-maintenance conditions and tying arrangements. Pet. App. 28a-29a, 44a-56a. The logic and reasoning of those decisions, however, turned on the extent of the patent grant, not on the particular type of post-sale restriction at issue. See, *e.g.*, *Motion Picture Patents*, 243 U.S. at 514-516. And in decisions holding that the patentees' patent rights had been exhausted, the Court has sometimes reserved the question whether the pertinent restrictions could be enforced through a breach-of-contract action. See, *e.g.*, *Quanta*, 553 U.S.

at 637 n.7 ("[W]e express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages."). That approach would make no sense if exhaustion barred enforcement only of restrictions that are otherwise unlawful.

c. The Federal Circuit also misconstrued this Court's occasional references to "unconditional sales" as referring to sales unaccompanied by any restrictions on post-sale conduct. Pet. App. 42a; see *id.* at 38a-39a, 42a-43a. In *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544 (1873), for example, this Court observed that patent rights are exhausted when a patentee authorizes a sale "without any conditions." *Id.* at 547. In the parlance of the time, however, the term "conditional sale" referred not to a sale subject to restrictions on post-sale use that ran with the particular article in commerce, but rather to a sale in which title to the article did not pass to the buyer until the performance of a condition precedent. See, *e.g.*, *Harkness* v. *Russell*, 118 U.S. 663, 666 (1886) (describing a "conditional sale" as a "mere agreement to sell upon a condition to be performed," only after which title passes); see also Pet. App. 115a-116a (Dyk, J., dissenting) (explaining this distinction). Indeed, the Court in *Motion Picture Patents* described a sale that involved restrictions on downstream purchasers' use of the patented article, but that resulted in immediate passage of title, as an "unconditional sale." 243 U.S. at 515-516. This Court has repeatedly found patent rights exhausted, moreover, even when the patentee attempted to impose restrictions on post-sale use or resale. See, *e.g.*, *id.* at 515-519; *Univis*, 316 U.S. at 251.

d. The court of appeals further misinterpreted this Court's decisions by reading them to permit a patentee to enforce restrictions on post-sale use and resale so long as the authorized sale is made by a licensee rather than by the patentee itself. See, *e.g.*, Pet. App. 8a, 26a, 34a, 35a, 37a, 41a-46a, 62a-63a. Believing it to be "undisputed and clear under Supreme Court precedent" that respondent "would not have exhausted its patent rights" if its cartridges had been sold by an authorized licensee, the Federal Circuit reasoned that respondent should not have "less control" because it sold the cartridges itself. *Id.* at 26a.

The court of appeals was wrong, however, in reading this Court's precedents to hold that a patentee may reserve post-sale patent rights in particular articles by licensing another entity to sell those articles. Indeed, this Court has repeatedly held that authorized sales by licensees exhaust the patentee's patent rights. See, *e.g.*, *Quanta*, 553 U.S. at 636-637 (finding exhaustion where licensee sold with restrictions mandated by the patentee); *Univis*, 316 U.S. at 249 (observing that a sale "by the patentee or by his licensee" constitutes "a complete transfer of ownership" that exhausts the patentee's patent rights, notwithstanding use restrictions). In *Motion Picture Patents*, for example, the patentee authorized its licensee to sell the patented article, but required the licensee (as a condition of the license) to tell purchasers that the article could be used only in particular ways following the sale. 243 U.S. at 506-507. The licensee complied with the license terms and communicated the restriction to the purchaser. *Id.* at 507. The Court held that the authorized sale by the licensee exhausted the patentee's patent rights and so rendered the re-

striction unenforceable in a patent-infringement action against the buyer. *Id.* at 506-507, 515-518.

The court of appeals' error stemmed from its misreading of *General Talking Pictures Corp.* v. *Western Elec. Co.*, 305 U.S. 124 (1938). The patentee there had authorized its licensees to sell patented amplifiers only for non-commercial uses. *Id.* at 125-126. One licensee violated that condition by selling amplifiers for commercial use in theaters. *Id.* at 126. The Court held that, because the amplifiers were "sold outside the scope of the license the effect is precisely the same as if no license whatsoever had been granted," *id.* at 127, so that the sale itself made the licensee "guilty of an infringement," *id.* at 126.[1] The Court further held that, "as [the buyer of the amplifiers] knew the facts," it also was liable for infringement "because it ha[d] used the invention without license to do so." *Id.* at 127.[2]

The Federal Circuit understood *General Talking Pictures* to imply that, if respondent had authorized a licensee to make and sell its patented cartridges, and the licensee (pursuant to respondent's instruction) had imposed the single-use/no-resale restriction on buy-

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[1] Patentees may not use their power to restrict licensees in a manner that unlawfully restrains trade, see *United States* v. *Line Material Co.*, 333 U.S. 287, 304 (1948); but the Court in *General Talking Pictures* stated that the non-commercial-use restriction "was legal," 305 U.S. at 127.

[2] Although the Court appeared to attach significance to the buyer's knowledge that the licensee had no authority to sell for commercial use, it did not explain why that knowledge was legally relevant given that patent infringement is a strict-liability tort. Because the buyer knew that the sale was unauthorized, the Court had no occasion to consider whether a purchaser who lacked such knowledge would also be liable for infringement.

ers, that restriction would have been enforceable under the patent laws against the buyers and any subsequent repurchasers. See Pet. App. 44a-45a. The court concluded on that basis that, if respondent's own sales exhausted its patent rights, "[n]on-practicing-entities would have greater power to maintain their patent rights than practicing entities." *Id.* at 45a. That is incorrect.

General Talking Pictures reflects the principle that a sale made by a licensee in violation of the license terms is not an *authorized* sale that can trigger patent exhaustion. That decision would be on point if respondent had instructed a licensee to impose the single-use/no-resale restriction as a contract term with buyers, and the licensee had instead sold the cartridges under contracts that allowed resale or multiple uses. In that circumstance the licensee would be liable under Section 271(a) for selling the cartridges without authority from the patentee, and the buyer also could be liable for infringement if it resold or reused the cartridges. See 305 U.S. at 127; see also p. 12 & note 2, *supra*.

General Talking Pictures does not suggest that, if the hypothetical licensee *obeyed* respondent's directive and placed the single-use/no-resale restriction in its sales contracts, a buyer (or subsequent repurchaser) who violated that restriction could be liable for patent infringement. To the contrary, this Court's precedents make clear that respondent's patent rights would be exhausted in that situation. See pp. 11-12, *supra*. The difference in outcomes between the two scenarios turns on the fact that the latter, but not the former, involves an initial *authorized* sale. The Federal Circuit was therefore wrong in concluding that, if

respondent's own sales trigger exhaustion, respondent would be disadvantaged vis-à-vis patentees who sell through licensees.

B. The question whether patentees can avoid the exhaustion doctrine by agreement or unilateral notice is important. This Court long ago recognized that "[t]he inconvenience and annoyance to the public" if patent rights are not exhausted by the first authorized sale are "too obvious to require illustration." *Keeler*, 157 U.S. at 667. Under the Federal Circuit's reasoning, a patentee could demand royalties for the use or resale of articles embodying its invention at multiple downstream points in the channels of commerce, long after the first authorized sale in the United States. That result would threaten the viability of second-hand markets in patented goods at substantial cost to the public interest, with no reason to think the ensuing wealth transfer to the patentee would promote the purposes that the Patent Clause is intended to serve. See U.S. Const. Art. I, § 8, Cl. 8.

The parties agree that respondent sold, rather than leased, the cartridges, Pet. App. 11a n.1; that respondent clearly communicated the single-use/no-resale restriction, *id.* at 11a; that the restriction does not "give[] rise to a patent-misuse defense, constitute[] an antitrust violation, or exceed[] the scope of the Patent Act[]," but rather is an "express and enforceable contractual agreement" with purchasers, *id.* at 11a, 14a (citation omitted); that "both the first purchaser and [petitioner] as a re-purchaser had adequate notice of the single-use/no-resale restriction," *id.* at 14a; and that steps taken to prepare the spent cartridges for resale do not "result in new articles, which would be outside the scope of the exhaustion

doctrine," *id.* at 12a n.2. This case accordingly provides a suitable vehicle for the Court to consider, and correct, the Federal Circuit's erroneous limitation on the scope of patent exhaustion following an authorized first sale in the United States.

II. THIS COURT SHOULD REVIEW THE FEDERAL CIRCUIT'S HOLDING THAT FOREIGN SALES NEVER TRIGGER EXHAUSTION OF U.S. PATENT RIGHTS

Petitioner challenges (Pet. 23-34) the Federal Circuit's separate holding that a foreign sale authorized by the U.S. patentee, either under a foreign patent or otherwise in accordance with foreign law, never exhausts the U.S. patent rights in that article. Because the question of international patent exhaustion presented here is an important one that this Court has not previously considered, and because the court of appeals decided that question incorrectly, the Court should grant review of the second question presented as well.

A. The court of appeals correctly rejected petitioner's proposed rule of automatic international patent exhaustion. The court erred, however, by declining to adopt the rule of *presumptive* international exhaustion long recognized in lower-court decisions, under which U.S. patent rights are exhausted unless they are expressly reserved as part of a foreign sale.

1. The international legal regime governing the protection of inventions is defined by the independence of each nation's patent system. The United States has ratified the Paris Convention for the Protection of Industrial Property, Mar. 20 1883, Art. 4, 25 Stat. 1375-1376, which provides in Article 4*bis* that "[p]atents applied for in the different contracting States * * * shall be independent of the patents

obtained for the same invention in the other States." Additional Act Modifying the Paris Convention for the Protection of Industrial Property, Aug. 25, 1902, Art. I, para. III, 32 Stat. 1940. U.S. patent law "do[es] not, and w[as] not intended to, operate[] beyond the limits of the United States," and the Court has "correspondingly reject[ed] the claims of others to such control over our markets." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 444 (2007) (citation and internal quotation marks omitted).

Because patent laws are quintessentially territorial, no authority under a U.S. patent is required to sell a patented article abroad. See *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 527 (1972). If an "inventor needs protection in [foreign] markets," Congress "intend[ed] to have him seek it abroad through patents secured in countries where his goods are being used." *Id.* at 531; see *Microsoft*, 550 U.S. at 456 (remedy for a U.S. patentee who "desires to prevent copying in foreign countries * * * lies in obtaining and enforcing foreign patents"). International agreements enhance U.S. patentees' ability to seek patent protection in other countries (and vice versa), but those agreements do not provide for reciprocal patent rights, and different countries' laws vary in their protections for particular inventions. See Pet. App. 75a-81a. Those differences reflect "different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions." *Microsoft*, 550 U.S. at 455 (citation and internal quotation marks omitted).

2. Because a foreign sale by a U.S. patentee does not implicate or require any authority under the U.S. patent, such a sale should not automatically exhaust

U.S. patent rights in that article. Instead, a rule of presumptive exhaustion should apply, permitting a patentee to reserve his U.S. rights as part of a foreign sale if he does so expressly.[3]

a. In *Boesch* v. *Graff*, 133 U.S. 697 (1890), this Court held that U.S. patent rights were not exhausted by a foreign sale that was permissible under the foreign country's laws but had occurred without the involvement or authorization of the U.S. patentee. See *id.* at 702-703. In *Boesch*, German law gave a seller who did not own the U.S. or German patent the right to make and sell the product in Germany because he had begun manufacturing it before the application for a German patent was filed. *Id.* at 701. The Court concluded that the lawful foreign sale of a particular article did not exhaust U.S. patent rights in the article because "[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Ibid.*

Boesch shows that a lawful foreign sale of a particular article will not *always* exhaust U.S. patent rights in that article. In *Boesch*, however, the German law that legitimized the foreign sale—*i.e.*, the rule that a person who had manufactured a product before a patent application was filed could continue to do so after the application was granted—had no analog in U.S. patent law. The Court held that, although German law controlled the question whether the initial sale was lawful, the propriety of resale in the United States was controlled by U.S. law. But the Court had no occasion to decide whether, or under what circum-

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[3] In light of this Court's domestic-exhaustion decisions, however, a patentee can only reserve his U.S. rights in full; he cannot divide the U.S. rights and retain some but not all.

stances, a foreign sale that is made or authorized by the U.S. patent holder (and thus would be lawful if it occurred in the United States) will exhaust U.S. patent rights.

b. U.S. courts have long permitted U.S. patentees to reserve their U.S. rights when making or authorizing foreign sales. See, *e.g.*, *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir. 1893); *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897); *Griffin* v. *Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283, 1284-1285 (E.D. Pa. 1978). U.S. courts have also held, however, that an *unrestricted* sale abroad by the U.S. patentee will exhaust the patentee's right to control importation of the particular article into the United States and its subsequent resale or use within this country. See *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920); *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 938 (D.N.J. 1983); *Holiday* v. *Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885). Applying the presumption that when an owner "sells an article without any reservation" he "intends to part with all his rights in the thing sold," courts coalesced around the rule that a U.S. patentee who authorizes a foreign sale must expressly reserve his discrete U.S. patent rights in the patented article if he wishes to preserve them. *Holiday*, 24 F. at 185. The decisions accordingly reflect a rule of presumptive, but not automatic, international patent exhaustion.

c. Although U.S. patent laws do not directly address the issue of international patent exhaustion, Congress has enacted legislation predicated on the assumption that those laws permit U.S. patentees to authorize sales abroad without exhausting their U.S.

patent rights if they expressly reserve those rights at the time of sale. In 2003, Congress enacted laws approving free trade agreements that commit the United States to preserve "the exclusive right of the patent owner to prevent importation of a patented product" notwithstanding a foreign sale of that product, at least where the patentee "has placed restrictions on importation by contract or other means." United States-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-286, 118 Stat. 919 (Art. 17.9.4 of implemented agreement); United States-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, 118 Stat. 1103 (Art. 15.9.4 of implemented agreement); see also Pet. App. 87a-88a & nn.22-23 (quoting relevant provisions).

Congress subsequently has enacted appropriations riders barring the inclusion of similar provisions in future trade agreements, apparently to allow further consideration of issues specific to particular product markets. *E.g.*, Act of Nov. 22, 2005, Pub. L. No. 109-108, § 631, 119 Stat. 2344; see *Transcript, Fiscal Year 2006 Defense Appropriations and the Fiscal Year 2006 Science, State and Justice Appropriations Bills: Hearing Before the House Comm. on Appropriations*, 109th Cong., 2005 WL 1350973 (June 7, 2005). But Congress has left intact the statutes approving the prior free trade agreements and has not altered U.S. law relating to international exhaustion.

The United States is therefore committed, in free trade agreements approved by legislation enacted by both Houses of Congress and signed by the President, to permit the express reservation of U.S. patent rights notwithstanding authorized foreign sales of patented articles. Those laws reflect Congress's understanding

that exhaustion principles do not preclude enforcement of such reservations of rights, and they provide a further reason to construe the patent laws in a manner consistent with that understanding. Cf. *Vimar Seguros y Reaseguros, S.A.* v. *M/V Sky Reefer*, 515 U.S. 528, 539 (1995) ("[C]ourts should be most cautious before interpreting * * * domestic legislation in such manner as to violate international agreements.").

d. Although the Federal Circuit correctly recognized that foreign sales do not *automatically* exhaust U.S. patent rights, the court erred in reaffirming *Jazz Photo*'s rule that foreign sales can *never* have that effect. Pet. App. 101a-103a. While no authority under U.S. law is required to consummate a foreign sale, nothing in the nature of a foreign sale logically precludes a U.S. patentee from conveying his U.S. rights as part of the foreign transaction. The patentee can determine whether the terms of the sale adequately reward him for his separate rights under U.S. and foreign law. See *id.* at 133a-134a (Dyk, J., dissenting) (observing that "significant differences" in the patent laws of different countries may mean that a U.S. patentee has not been "fully compensated" if a foreign sale automatically exhausts his U.S. rights). A rule of presumptive exhaustion appropriately balances "the interests of the rights holder and the unsuspecting buyer" by "put[ting] the burden on the U.S. rights holder to provide notice of a reservation of U.S. rights to the purchaser." *Id.* at 134a. That "uniform approach" to exhaustion, "existing well before the 1952 Patent Act and continuing thereafter, strongly supports" interpreting the patent laws to embody a rule of presumptive international exhaustion. *Id.* at 129a.

3. Petitioner contends (Pet. 24) that this Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which held that a U.S. copyright holder's U.S. rights were automatically exhausted by its sale of copyrighted books abroad, compels an analogous rule of automatic international exhaustion in the patent context. That is incorrect.

The Court in *Kirtsaeng* held that 17 U.S.C. 109(a), which permits owners of copies "lawfully made under this title" to sell or dispose of those copies without the copyright owner's permission, applies to copies "lawfully made abroad." 133 S. Ct. at 1356. In reaching that conclusion, the Court rejected the argument that Section 109(a) referred only to copies made in the United States. *Id.* at 1358-1362. The Court concluded that the proposed geographic limitation would exempt foreign-made copies from the first-sale doctrine entirely and so yield the "absurd result that the copyright owner c[ould] exercise downstream control even when it authorized the import or first sale" in the United States. *Id.* at 1366; see *id.* at 1373 (Kagan, J., concurring).

Kirtsaeng's reasoning does not carry over to the patent context. Patent and copyright law "are not identical twins." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). The Court has accordingly exercised "caution * * * in applying doctrine formulated in one area to the other," *ibid.*, including in cases involving exhaustion, see *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 345-346 (1908). That caution is particularly warranted here. Because the Patent Act contains no analog to 17 U.S.C. 109(a), the *Kirtsaeng* Court's analysis of the text, context, and history of that provision does not illuminate the

proper international-patent-exhaustion rule. Nor is there any risk that a patentee would enjoy perpetual control over patented goods absent automatic international exhaustion. Even if a patentee withholds its U.S. rights in authorizing a foreign sale, its subsequent authorization of a sale in the United States would fully exhaust those rights under the domestic exhaustion rule that has prevailed for more than 150 years.

As petitioner emphasizes (Pet. 24-27), the *Kirtsaeng* Court found additional support for its interpretation of Section 109(a) in the "common law's refusal to permit restraints on the alienation of chattels," which "makes no geographical distinctions." 133 S. Ct. at 1363. But that common-law doctrine was significant because the Court could identify "no language, context, purpose, or history that would rebut" it, whether in Congress's codification of the doctrine or in prior decisions discussing copyright exhaustion. *Id.* at 1364. In the patent context, by contrast, *Boesch* demonstrates that sales lawfully made in a foreign country do not automatically trigger exhaustion; lower courts have consistently upheld express reservations of U.S. patent rights accompanying foreign sales; and Congress has enacted legislation that assumes that understanding of U.S. law. Petitioner is therefore wrong to contend (Pet. 24) that *Kirtsaeng* "resolves th[e] question" presented here.

B. This Court's review is warranted. In light of the increasingly transnational nature of global commerce, the question whether and under what circumstances a patentee retains U.S. patent rights when authorizing a foreign sale is important, as the many amicus briefs addressing the issue demonstrate. Because the Fed-

eral Circuit has exclusive appellate jurisdiction in cases arising under the patent laws, 28 U.S.C. 1295(a)(1), the decision below will establish the nationwide rule absent this Court's intervention.

Petitioner's resale in the United States of patented cartridges first sold by respondent in foreign countries, in a case where the patent holder did not expressly reserve its U.S. patent rights but the alleged infringer did not raise an implied-license defense, see Pet. App. 63a, provides a clean vehicle for the Court to determine the correct international-patent-exhaustion rule. And if the Court grants review on the first question presented, it would be particularly appropriate to decide the second as well, so that the regulated community and the lower courts are not left to speculate about the implications for international patent exhaustion of the Court's domestic-exhaustion analysis.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

IAN HEATH GERSHENGORN
Acting Solicitor General
BENJAMIN C. MIZER
Principal Deputy Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
ELIZABETH B. PRELOGAR
Assistant to the Solicitor General
MARK R. FREEMAN
MELISSA N. PATTERSON
Attorneys

OCTOBER 2016

RECORD
AND
BRIEFS

No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

AMICUS CURIAE BRIEF OF THE ASSOCIATION OF MEDICAL DEVICE REPROCESSORS IN SUPPORT OF IMPRESSION PRODUCTS, INC.

ROBERT A. SURRETTE
Counsel of Record
CHRISTOPHER M. SCHARFF
McANDREWS, HELD AND MALLOY, LTD.
500 West Madison Street, Suite 3400
Chicago, Illinois 60661
(312) 775-8000
rsurrette@mcandrews-ip.com

Counsel for Amicus Curiae Association of Medical Device Reprocessors

265896

COUNSEL PRESS

QUESTIONS PRESENTED

The "patent exhaustion doctrine"—also known as the "first sale doctrine"—holds that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). This case presents two questions of great practical significance regarding the scope of this doctrine on which the *sua sponte en banc* Federal Circuit divided below:

1. Whether a "conditional sale" that transfers title to the patented item while providing post-sale restrictions on the article's use or resale circumvents the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions under penalty of patent infringement.

2. Whether a sale of a patented article outside of the United States—authorized by the U.S. patentee— exhausts the U.S. patent rights in that article, in light of this Court's holding in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) that the common law rule against restraints on alienation "makes no geographical distinctions."

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INTEREST OF THE *AMICUS CURIAE*

The Association of Medical Device Reprocessors ("AMDR") is a trade organization consisting of member companies that reprocess medical devices.[1] Member companies collect, clean, repair, and re-sterilize (among other steps) discarded medical devices that can safely be reused pursuant to FDA regulations. The devices that AMDR member companies reprocess include used cardiovascular, patient monitoring and compression therapy, general surgery, and orthopedic devices, as well as opened but unused devices. AMDR member companies provide hospitals with safe and effective reprocessed devices, which lower healthcare costs and reduce the impact of medical waste on the environment.

The Food and Drug Administration (FDA) regulates companies that market medical devices in the United States, including medical device reprocessors. Before a reprocessed medical device can be marketed or sold, a third-party reprocessor must demonstrate—and the FDA must agree—that the reprocessed device is substantially equivalent in terms of safety and efficacy to the predicate

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1. No party or its counsel authored this brief in whole or in part, or contributed money to fund preparing or submitting this brief. No person or their counsel, other than the *amicus* party or its members (Stryker Sustainability Solutions, Inc., a wholly-owned subsidiary of Stryker Corporation, Medline ReNewal, Innovative Health, Vanguard AG, and Hygia Health Services), contributed money intended to fund preparing or submitting the brief. Respondent Lexmark International, Inc. filed a letter of blanket consent to *amici*. Petitioner Impression Products, Inc. granted consent to *amicus curiae* AMDR on April 13, 2016 via electronic mail, a copy of which is being submitted herewith.

originally-manufactured device. A third-party reprocessor must comply with the same requirements that apply to original equipment manufacturers, including:

- Registering all reprocessed products
- Obtaining premarket approval
- Verifying quality assurance
- Submitting adverse event reports
- Tracking devices whose failure could have serious outcomes
- Correcting or removing from the market unsafe devices
- Meeting manufacturing and labeling requirements
- Submitting the reprocessing facilities to regular inspection

The savings realized through the use of reprocessed single-use devices allows hospitals and healthcare providers to cut costs significantly and redirect those funds toward hiring more medical professionals or investing in improved patient care. Many of the hospitals with whom AMDR members work are able to save more than $1 million annually by purchasing AMDR members' reprocessed single-use devices. Smaller community hospitals report saving more than $250,000 annually.

The reprocessing services offered by AMDR members also have a drastic positive effect on the environment. AMDR members help hospitals divert millions of pounds from local landfills per year. On average, medical device reprocessing can divert over 50,000 pounds of medical waste from a single hospital each year—the equivalent weight of more than five elephants. Regulated medical waste, also known as "red bag" waste, costs up to 5-10 times more to dispose of than regular solid waste.

If, however, an original manufacturer can avoid the patent exhaustion/first sale doctrine simply by including a "single-use" restriction with the sale of a patented product, then reprocessors of such devices would risk liability for patent infringement. Consumers and businesses, including the hospitals that AMDR members serve, would be forced to purchase a new replacement device from the manufacturer and to dispose of new devices that have only been used once (which may otherwise be able to be reprocessed for multiple uses). Similarly, if foreign sales do not trigger U.S. patent exhaustion, manufacturers would be able to exact multiple payments for a single sale of a product (e.g., when it is originally sold abroad and again when imported or sold into the U.S.) or engage in more aggressive discriminatory pricing. If the Court does not reverse the decision of the Federal Circuit, healthcare costs would multiply, medical waste would pile up, and competition in the medical device market would be reduced.

AMDR, therefore, seeks to provide this Court with the perspective of an industry that the decision in this case would significantly impact. Specifically, AMDR submits this amicus curiae brief in support of Petitioner

Impression Products, Inc., to address both Questions Presented.

SUMMARY OF ARGUMENT

For over 150 years, this Court has recognized the patent exhaustion doctrine as a defining boundary of the scope of the limited monopoly afforded by a patent. Under the patent exhaustion doctrine, an authorized sale of a product substantially embodying the patented invention exhausts the patent right. Put another way, after title of a patented product passes to a purchaser through a sale authorized by the patentee, the purchaser and any downstream purchaser or user are free under patent law to use, dispose of, or repair the product.

The Federal Circuit's *en banc* decision, however, effectively eliminates the patent exhaustion doctrine. This Court had articulated the doctrine as a *limit* on a patentee's ability to control post-sale use of a patented product—regardless of a patentee's desire to control post-sale activity, patent exhaustion prevented it from doing so. The Federal Circuit, however, would make patent exhaustion an *optional* result—if a patentee does not want patent exhaustion to be triggered by a sale, it need only provide "clearly communicated" post-sale restrictions. A patentee could also use the Federal Circuit's decision to exact multiple payments from successive owners of the same product originally sold outside of the United States—contrary to the purpose of patent exhaustion.

By first reaffirming its earlier decision in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 702-706 (Fed. Cir. 1992), the Federal Circuit addressed the impact of

"post-sale" restrictions in a purchase agreement and whether such restrictions could avoid patent exhaustion. The Federal Circuit interpreted this Court's precedent as having addressed only post-sale restrictions that ran afoul of antitrust law. *See* Pet. App. at 53a-56a. Under that reasoning, the Federal Circuit held that other post-sale restrictions that are not *per se* illegal under antitrust law could avoid patent exhaustion. *Id.* For example, the Federal Circuit found that a sale subject to a post-sale restriction limiting a patented product to a "single-use" did not trigger patent exhaustion. *Id.* at 8a.

The Federal Circuit's holding, however, is directly contrary to this Court's repeated articulation of the patent exhaustion doctrine. As recently as *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 638 (2008), this Court addressed the effect of post-sale restrictions on patent exhaustion. The Court in *Quanta* applied prior precedent without regard to antitrust law and stated a broad, bright-line test for patent exhaustion. Under *Quanta*, any sale authorized by the patent holder triggers patent exhaustion, eliminating the patent holder's ability to control post-sale activity. *Id.* at 638. The Court did not limit patent exhaustion to sales without contract restrictions or ones with restrictions that would be unlawful under antitrust law. Moreover, the Court's analysis in *Quanta* also reveals that the Federal Circuit misapprehended this Court's earlier precedent.

Similarly, in reaffirming its earlier decision in *Jazz Photo Corp. v. Int'l Trade Commission*, 264 F.3d 1094, 1102-07 (Fed. Cir. 2001), the Federal Circuit addressed the application of patent exhaustion to foreign sales of a product patented in the United States. The Federal

Circuit held that an authorized sale of a patented product outside of the United States does not exhaust U.S. patent rights, notwithstanding the opposite holding of this Court in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363-64 (2013) (addressing first sale doctrine under copyright law). This result also misapprehends this Court's earlier precedent, ignores the common law rule against restraints on disposition of goods making "no geographical distinctions" (133 S. Ct. at 1363), and illogically and incorrectly distinguishes the holding of *Kirtsaeng*. If allowed to stand, the Federal Circuit's decision would cripple the international market for reprocessed or resold goods.

ARGUMENT

I. THE FEDERAL CIRCUIT'S DECISION WILL SEVERELY IMPACT THE MARKET FOR FDA CLEARED REPROCESSED MEDICAL DEVICES

A. Patent Exclusion Power is Not Needed as a Policy Matter to Protect the Safety of Reprocessed Medical Devices

A holding that "single-use" or "use-and-return" restrictions cannot circumvent patent exhaustion is best for commerce. Reprocessed medical devices in particular are a significant industry. About 3,000 of the nation's 5,500 or so acute care hospitals have implemented reprocessing programs. AMDR's members reprocess medical devices for 14 of the 17 hospitals recognized on the *US News & World Report* "Honor Roll," including Mayo Clinic, Cleveland Clinic, Johns Hopkins, Massachusetts General, Stanford Healthcare and many others. Analysts,

such as Transparency Market Research, estimate that the total savings to all hospitals from reprocessing is upwards of $500 million per year. The Healthier Hospitals Initiative, an alliance of hospitals and health systems that seeks to boost sustainability in healthcare, released a report in April 2013 finding that 185 hospitals saved $32 million in 2012 by reprocessing single-use medical devices. And Tenet Healthcare Corp. reported saving $9.4 million and diverting more than 1.5 million pounds of medical waste from landfills in 2012. For that reason, customers of AMDR's members have described medical device reprocessing as "the right thing to do, both environmentally and economically." *See* http://www.beckershospitalreview.com/supply-chain/the-ins-and-outs-of-third-party-reprocessing.html (last visited April 15, 2016). The American Nurses Association, Association of Peri-Operative Nurses, Healthcare Without Harm, and Practice Greenhealth have also all written in support of the environmental benefits of single-use device reprocessing. *See* http://www.amdr.org/environmental/ (last visited April 15, 2016).

Even the FDA has recognized the significant benefits of reprocessed medical devices. The FDA appreciates that "[r]eprocessing and reusing single-use devices (SUDs) can save costs and reduce medical waste." FDA Device Advice: Comprehensive Regulatory Assistance, Reprocessing of Single-Use Devices, http://www.fda.gov/MedicalDevices/DeviceRegulationandGuidance/ReprocessingofSingle-Use Devices/ (last visited April 15, 2016). Through March 2016 the FDA has cleared approximately 252 single use medical devices for reprocessing.

The FDA ensures that "before medical devices can be reprocessed and reused, a third-party or hospital reprocessor must comply with the same requirements that apply to original equipment manufacturers." *Id.* The FDA's former Director of the Center for Devices and Radiological Health has therefore recognized that the "FDA believes that reprocessed SUDs [single-use devices] that meet FDA's regulatory requirements are as safe and effective as a new device." *See* Testimony of Dr. Daniel Schultz, at http://www.fda.gov/Medical Devices Device Regulation and Guidance/ReprocessingofSingle-UseDevices/ucm121067.htm (last visited April 15, 2016) (emphasis added).

In fact, the "pre-market submission of data to the Agency [for clearance of a reprocessed device] . . . exceeded the requirements for OEMs." *Id.* (emphasis added). That is because in 2002, Congress enacted the Medical Device User Fee and Modernization Act ("MDUFMA"), which provided in § 302 additional specific regulatory requirements for reprocessed single-use devices, including that a reprocessor must:

- "prominently and conspicuously" label the device as reprocessed;

- allow the FDA to review devices previously exempted from FDA 510(k) clearance; and

- submit a new, additional category of premarket submission—the premarket report—for any reprocessed Class II device.

Moreover, there is nothing inherently unsafe in reprocessing a device that an original manufacturer chose to designate as single-use-only. The decision to put a "single use" label on a device's packaging is made by the original manufacturer—not the FDA. A manufacturer typically makes that label designation just to avoid having to submit evidence supporting re-use to the FDA. *See* U.S. Government Accountability Office, GAO-08-147, *Reprocessed Single-Use Medical Devices: FDA Oversight Has Increased, and Available Information Does Not Indicate that Use Presents an Elevated Health Risk* (Jan. 2008), available at http://www.gao.gov/products/GAO-08-147 (last visited April 15, 2016).

The Federal Circuit majority nevertheless found as a policy matter that a patentee should—even after an authorized sale that relinquishes title to a product—be able to use patent law to control the conditions under which that product is later reprocessed, recycled, or reused. Pet. App. at 61a. Without citing to any factual evidence, the majority concluded that post-sale restrictions allegedly make sense because, for example, a medical device supplier may have "reason to believe that reuse, when not under its own control, carries a significant risk of poor or even medically harmful performance, to the detriment of its customers and its own reputation." *Id.* at 60a-61a. According to the Federal Circuit's unsupported speculation "[s]uch interests are hardly unrelated to the interests protected by the patent law—the interests both of those who benefit from inventions and of those who make risky investments to arrive at and commercialize inventions." *Id.* at 61a.

The Federal Circuit's argument, however, overlooks all of the foregoing discussed consumer, economic, and environmental benefits of reprocessed devices. And it overlooks the heavily stringent FDA oversight in place for those devices. Reprocessed medical devices are required by law to be just as safe and effective as the original device. *See supra* at p. 8-9.

Moreover, this Court long ago resolved the proper policy balance between a patent holder's interest in using patent law to control the use of its invention versus the public's interest in using their purchased property as they see fit. That is the very origin of the patent exhaustion doctrine. *See, e.g., Bloomer v. McQuewan*, 55 U.S. 539, 14 How. 539, 549, 14 L. Ed. 532 (1853) ("[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly."); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917) (observing that "the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is 'to promote the progress of science and useful arts'"). This Court has explained the basis for the doctrine as follows: "[T]he purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward . . . by the sale of the article"; once that "purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *United States v. Univis Lens Co.*, 316 U.S. 241, 249-50 (1942). Patent law is not a tool for exacting a "toll" for every use of a patented product or for regulating the use of the patented product.

B. The Federal Circuit's "Conditional Sale" Exception to Patent Exhaustion Could Potentially Eliminate Secondary Markets in Patented Goods

The Federal Circuit's decision below effectively guts the patent exhaustion doctrine. A patentee could potentially exclude from exhaustion any sales of a patented product simply by including a "clearly communicated" post-sale restriction in the purchase agreement (or potentially even just in a shrink-wrap agreement on the packaging). The patentee would be able to threaten patent infringement liability against all subsequent purchasers down the chain to either prohibit reuse/resale entirely or to extract a second, third, or fourth "license" fee. These very concerns led to the Court's holding in *Quanta*. *See Quanta*, 553 U.S. 617 at 630 ("This case illustrates the danger of allowing such an end-run around exhaustion.") (emphasis added).

The Federal Circuit brushed off any concerns in this regard, arguing that this result has purportedly not come to pass since the decision in *Mallinckrodt*. *See* Pet. App. at 60a. Most observers, however, had believed that *Quanta* overruled *Mallinckrodt*. *See infra* at p. 17 (discussing articles and district court decisions concluding that *Mallinckrodt* was not good law). Moreover, even before *Quanta*, it was believed that the three-person panel decision in *Mallinckrodt* was wrongly decided, as it was contrary to earlier precedent of this Court. *See, e.g.*, Richard H. Stern, *The Unobserved Demise of the Exhaustion Doctrine in US Patent Law*, 15 Eur. Intel. Prop. Rev. 460-65 (1993) ("The flaws in *Mallinckrodt's* legal analysis appear overwhelming. . . . Because

Mallinckrodt's precedential support is negligible, its viability as a precedent may be limited. Subsequent panel decisions may distinguish it or limit it to its facts to the point of irrelevance.") (emphasis added). Should this Court decline to reverse the Federal Circuit's sweeping *en banc* decision, however, post-sale restrictions will undoubtedly become far more common. Secondary market goods for products such as medical devices, cell phones, home electronics, automotive parts, and others may largely disappear.

C. The Federal Circuit's Ruling That Foreign Sales Do Not Result in Patent Exhaustion Could Disrupt International Secondary Markets

The medical device reprocessing industry—as with many other secondary markets—is also a world-wide industry. The Federal Circuit's ruling that foreign sales do not result in patent exhaustion would significantly disrupt that market and harm consumers. At the same time, it would only benefit patent holders by allowing them to demand multiple payments on a single tangible good after it is sold or to enforce country-by-country price discrimination.

For example, a medical device reprocessor could face allegations of patent infringement if it were to bring foreign-sold medical devices into the U.S. to reprocess those devices in a U.S. reprocessing facility. Even if the U.S. reprocessor intends to simply take devices from the original authorized purchaser, import them into the U.S. to reprocess them as a service for the owner (without a sale or title changing hands), and send them back to the

original purchaser, either the U.S.-based reprocessor or the foreign purchaser would have to import them into the U.S. *See* 35 U.S.C. § 271 (importing a patented good can be an act of infringement). Therefore, such a U.S.-based reprocessor—who otherwise performs mere reprocessing-for-hire services, would now have to trace the patent rights of every component of that product. Or, the U.S.-based reprocessor would have to set up duplicative and wasteful reprocessing facilities around the globe.

The Federal Circuit's decision may also result in higher costs for medical devices in the U.S. A U.S.-based reprocessor who engages in the business of buying lower-cost medical devices overseas for resale in the U.S. would be exposed to increased risk of patent infringement allegations. Meanwhile, the patentee could potentially charge a lower price outside of the U.S. for a device, but a much higher price for sales in the U.S. A U.S. hospital or other consumer would be unable to buy the products at a lower price outside of the U.S. and import them for use.

D. The Federal Circuit's Decision Results in Untenable Uncertainties for Third Party Good Faith Purchasers of Products

The Federal Circuit majority's decision also leaves reprocessing companies guessing as to their rights. The Federal Circuit's decisions to affirm *Mallinckrodt* and *Jazz Photo* raises myriad practical barriers.

First, a downstream purchaser that may have no way of verifying the details of the original sale could nevertheless be subject to the "conditions" of that sale, or else be potentially liable as an infringer. The Federal

Circuit majority decision partly recognized this danger and added a requirement of "notice" of any "conditional sales" to "downstream buyers." Pet. App. at p. 62a. The majority decision also requires that the post-sale restriction be "clearly communicated to the purchaser." Pet. App. at 8a. The Federal Circuit, however, provided no guidance as to what constitutes "notice" or a "clearly communicated" restriction. Nor did the Federal Circuit provide any legal reasoning for why the heavy remedy of patent infringement should be dependent on whether or not a downstream purchaser *knows* of a post-sale restriction in an original sales contract. And the Federal Circuit did not address what kind of evidence would be sufficient to prove such knowledge.

For example, the Federal Circuit has previously held that only post-sale restrictions in a *contract* can constitute "conditions" on the sale that would avoid patent exhaustion. *See Jazz Photo Corp. v. ITC*, 264 F.3d 1094, 1108 (Fed. Cir. 2001) ("We do not discern an enforceable restriction on the reuse of these cameras based on the package statements [stating that the cameras were for single-use]. These statements are instructions and warnings of risk, not mutual promises or a condition placed upon the sale.") Mere "instructions and warnings" on *packaging* cannot themselves constitute a *contract* and thus a condition on the sale. *See id.* If warnings on the product or product packaging are insufficient, however, it is unknown how a downstream purchaser would know of the existence of any "conditions" on the original sale contract. Moreover, neither *Jazz Photo* nor the Federal Circuit decision below addressed the impact of restrictions in a "shrink-wrap" agreement on the product packaging, and how a downstream purchaser would have notice of such an agreement if the original packaging is discarded.

Similarly, the Federal Circuit's ruling that patent exhaustion does not apply to goods that a U.S. patentee sells abroad will raise unworkable uncertainties. A downstream purchaser may often have no way of knowing whether the first authorized sale of a product occurred in the U.S. or not. Under the Federal Circuit's decision, the fact that a product was first sold abroad does not need to be "clearly communicated" to a downstream purchaser in order to avoid patent exhaustion. *See* Pet. App. at 63a-103a. Further, because a downstream purchaser of a foreign product would no longer be able to rely on patent exhaustion, it would now have to engage in costly examination of whether the goods are patented or not.

The bright-line patent exhaustion doctrine of *Quanta* and the bright-line rule of *Kirtsaeng* against geographical distinctions on restraints against alienation remove all of this uncertainty. They strike the proper balance between patentee and purchaser rights and relegate contract disputes to their proper place.[2]

2. This Court in *Quanta* recognized that post-sale restrictions are something to be enforced, if at all, through contract law, rather than patent law. *See Quanta*, 553 U.S. at 636, fn. 7 ("We note that the authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights.")

II. THE FEDERAL CIRCUIT'S "CONDITIONAL SALE" DOCTRINE IS CONTRARY TO THIS COURT'S 150-YEAR-OLD PATENT EXHAUSTION DOCTRINE

A. This Court Has Uniformly Held that Any "Authorized" Sale, Regardless of Tangential Post-Sale Restrictions, Triggers Patent Exhaustion

This Court's patent exhaustion standard is both broad and simple: "[T]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (U.S. 2008). Once the patentee parts with title to the product through an authorized sale, it relinquishes all ability to control post-sale use or resale.

The test in *Quanta* does not depend on the relationship of the parties or whether there were any tangential covenants, warranties, or ongoing duties in a contract. Nor does it depend on antitrust law or the legality of any post-sale restrictions. Rather, the Court recognized that a patentee (LGE) had authorized a manufacturer (Intel) to manufacture and sell patented products. *Id.* at 636. The Court found what the patentee argued were "conditions" on the use of the product (i.e., the manufacturer was required to notify any purchasers that they could not combine the patented products with non-Intel components) amounted to mere collateral agreements that did not render the sales by Intel "unauthorized." *Id.* When the manufacturer sold the products to a third party (Quanta), "Intel's authorized sale to Quanta thus took its products

outside the scope of the patent monopoly" and as a result, the patentee could "no longer assert its patent rights against Quanta." *Id.* at 638 (emphasis added).

Accordingly, most commentators agreed that *Quanta* put to rest any "conditional sale" exception to patent exhaustion. *See* Alfred C. Server and William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following Quanta*, 64 Hastings L.J. 561, 596 (Apr. 2013) (stating that "a majority of commentators" have adopted the view that *Quanta* overturned the conditional sales doctrine); Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 60 Ala. L. Rev. 103, 111 & n.35 (2008) (claiming *Quanta* overruled *Mallinckrodt*); Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, IDEA—The Intellectual Property Law Review, Vol. 49, No. 4 (June 7, 2009) at 529-30 (same); *see also Ergowerx Int'l, LLC v. Maxell Corp. of Am.*, 18 F. Supp. 3d 430 (S.D.N.Y. 2014) (same); *Intergraph Hardware Techs. Co. v. Dell, Inc.*, 2009 U.S. WL 166559, *3 (E.D. Tex. Jan. 16, 2009) (same); *Static Control Components, Inc. v. Lexmark Int'l*, Inc., 615 F. Supp. 2d 575, 585 (E.D. Ky. 2009) (same).

III. THE FEDERAL CIRCUIT'S RATIONALE FOR ITS "CONDITIONAL SALE" EXCEPTION TO PATENT EXHAUSTION IS FLAWED

Notwithstanding the broad, clear patent exhaustion rule articulated by this Court, the Federal Circuit majority nevertheless found that its "conditional sale" exception to patent exhaustion was warranted. Its reasoning, however, misapprehends this Court's precedent, the patent statute, and the purpose of patent exhaustion.

First, the Federal Circuit incorrectly concluded that *Quanta*, as well as the earlier decisions in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917) and *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942), were distinguishable—that the broad patent exhaustion rule in those decisions was mere dicta because there was either no restriction imposed or the restriction would otherwise have violated the antitrust laws. *See* Pet. App. at 54a. But as the dissent by Judges Dyk and Hughes explained, "the cases impose no such qualification on the rule announced." *Id.* at 118a.

For example, the Federal Circuit attempted to distinguish *Quanta* by arguing that it "did not involve a patentee's sale at all" or one "subject to a restriction." *Id.* at 30a. But patent exhaustion applies not just to patentee sales but also to authorized licensee sales. *See Quanta*, 533 at 636-37 (authorized sale from licensee Intel exhausted the patent). And the sales at issue in *Quanta* did come with a "restriction"—Intel (the licensee/seller) was required by LGE (the patentee) to notify purchasers (including Quanta) that they were not allowed to combine the patented products with non-Intel components. *See Quanta*, 533 at 624-25. The Court simply held that this restriction did not override the undeniable fact that the sale itself was still "authorized" by LGE. *See id.*

The Federal Circuit similarly incorrectly interpreted *Motion Picture Patents* as only establishing that unlawful post-sale restrictions (e.g., price fixing) did not circumvent patent exhaustion. *See* Pet. App. at 53a-54a. The Court in *Motion Picture Patents*, however, put no such limitation on its holding. The Court simply held that "the right to vend is exhausted by a single, unconditional sale, the article

sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it." *Motion Picture Patents*, 243 U.S. at 516, 518. In doing so, *Motion Picture Patents* overruled the entirety of this Court's short-lived decision in *A.B. Dick* that had broadly allowed post-sale restrictions—not just as to "unlawful" restrictions. *See id.* at 518, overruling *Henry v. A.B. Dick Co.*, 224 U.S. 1, 24-25 (1912).

Univis likewise did not turn on whether a post-sale restriction is legal under antitrust laws. In *Univis*, the Court broadly found that where a patent holder has sold a patented product he has "thus parted with his right to assert the patent monopoly with respect to it and is no longer free to control the price at which it may be sold . . . ." *Id.* at 251. In arriving at that conclusion, *Univis* started its analysis with patent law, stating that "before considering whether the defendants' conduct violated antitrust law, the Court first asked whether that conduct was excluded by the patent monopoly from the operation of the Sherman Act." *Univis*, 316 U.S. at 244. To answer that question, the Court turned to patent exhaustion. *Id.* In other words, *Univis* found that the post-sale restrictions were also illegal under antitrust law only after concluding that patent exhaustion first voided them. That is why *Quanta*—which did not turn on or discuss any antitrust issues—recognized that "*Univis* governs." *Quanta*, 553 U.S. at 617.

Second, the Federal Circuit majority incorrectly reasoned that without a "conditional sale" exception to patent exhaustion, there would be two different patent exhaustion tests for (a) "a practicing-entity patentee

that makes and sells its own product" versus (b) a "non-practicing-entity that licenses others to make and sell the product." Pet. App. at 26a. But the Federal Circuit misunderstood the issue. The distinction that exists under this Court's exhaustion test is simply between authorized and unauthorized sales.

The *Quanta* test itself reflects this distinction. *Quanta* requires an "authorized sale" to exhaust the patent. *Quanta*, 553 U.S. at 638. Any sales directly made by the patentee are of course logically "authorized" by the patentee. Any sales by an infringing, unrelated third party are logically "unauthorized" by the patentee. But a patentee can also grant a license to another company to make and sell the patented product. If it wishes, the patentee can give the manufacturer-licensee permission to sell the product only within a certain geographic area or field of use. The patentee has not sold the product to the manufacturer-licensee and thus there is no "authorized sale" between them to trigger patent exhaustion. Thereafter, unauthorized sales by the manufacturer-licensee in violation of the agreement (e.g., sales outside of the permitted area or field of use), are unlicensed and therefore infringing. That was the exact scenario in *General Talking Pictures Corp. v. Western Elec. Co.*, 305 U.S. 124, 127 (1938). If, however, the manufacturer-licensee makes an authorized sale to a customer (e.g., the manufacturer licensee sells within the scope of its license), patent exhaustion is then triggered. *See Quanta*, 553 U.S. at 625. Any subsequent purchaser after that authorized first sale is free to use and resell the product as it sees fit (even outside the manufacturer-licensee's field of use), just as if it purchased the product from the patentee itself. In other words, patent exhaustion does not treat sales

by a licensee/manufacturer differently from those by a patentee—it treats authorized and unauthorized sales differently. *See* Pet. App. at 121a-123a.

Third, the Federal Circuit majority incorrectly argued that this Court's own past use of the term "unconditional sale" supported a "conditional sale" exception to patent exhaustion. *See* Pet. App. at 32a, citing *Quanta*, 553 U.S. at 626, quoting *Motion Picture Patents*, 243 U.S. at 516. But the Federal Circuit misapprehended the way that this Court has used the term "unconditional sale." Traditionally, a "conditional sale" of property was one in which title did not pass until a condition-precedent had occurred. *See* Pet. App. at 115a, Dissenting Opinion citing *Harkness v. Russell*, 118 U.S. 663, 665 (1886) (a "conditional sale" is a security device, i.e., an "agreement to sell upon a condition to be performed"). In the post-sale restrictions at issue here, there was no "condition" that had to occur before title to the patented product passed to the purchaser. The single-use restrictions here are more properly characterized as tangential contract provisions (no different from payment, warranty, or other similar provisions) rather than a "conditional sale."

Fourth, the Federal Circuit reasoned that because the Court in *Quanta* did not expressly overrule *Mallinckrodt's* "conditional sale" exception to patent exhaustion, it would be "unwarranted" to believe that the Court disapproved of it. Pet. App. at 32a. That logic, however, is backwards. As the Federal Circuit acknowledged, the "evident explanation is that, at a minimum, no question was presented for decision" in *Quanta* regarding overturning *Mallinckrodt*. *Id. See also* Pet. App. at 114a, fn. 3. In fact, at oral argument, LGE's counsel was asked: "Q: Am

I correct in understanding that you do not defend the *Mallinckroat* decision? A: I do not defend the *Mallinckrodt* decision, Justice Stevens, and clearly I don't believe I have to." Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, IDEA—The Intellectual Property Law Review, Vol. 49, No. 4 (June 7, 2009) at 30.

Fifth, the Federal Circuit's reliance on 35 U.S.C. §§ 271(a) and 154(a)(1) as allegedly allowing a patent holder to exclude any use of a patented invention "without authority" is misplaced. Such an interpretation is contrary to the very concept of patent exhaustion. For example, in *Motion Picture Patents* and *Quanta*, the patentee had not given "authority" for the disputed post-sale use of the patented products. *See Motion Pictures Patents*, 243 U.S. at 514-15, *Quanta*, 553 U.S. at 638. Nevertheless, exhaustion was trigged because there was an "authorized" first sale—that sale ended the patentee's ability to exert any further "authority" over post-sale use. *See id.*

IV. THE FEDERAL CIRCUIT INCORRECTLY HELD THAT FOREIGN SALES DO NOT TRIGGER PATENT EXHAUSTION

The Federal Circuit also incorrectly decided whether non-U.S. sales of a patented product exhaust the U.S. patent rights. Namely, the Federal Circuit *en banc* upheld the earlier panel decision in *Jazz Photo*, 264 F.3d at 1102-07 that such sales do not trigger patent exhaustion. This decision is contrary to *Kirtsaeng*, 133 S. Ct. at 1363-64 and the common law articulated therein.

In *Kirtsaeng*, the Court concluded that an authorized sale of a copyrighted book outside the U.S. did give rise to copyright exhaustion. *See id.* at 1363-64. Although the Court there addressed copyright exhaustion based on a foreign sale, rather than patent exhaustion, it analyzed the common law regarding restraints on property generally. *See Kirstaeng*, 133 S. Ct. at 1363. The Court treated the copyright first sale doctrine as a "common-law doctrine with an impeccable historical pedigree" rather than something unique to the copyright statute. *Id.* The Court broadly recognized that "[a] law that permits a copyright holder to control the resale or other disposition of a chattel once sold" is "against Trade and Traffic, and bargaining and contracting." *Id.* The Court also recognized (1) "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods" and (2) that a broad first sale doctrine frees courts from "the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods." *Id.* at 1363-64. The Court then concluded that "[t]he common-law doctrine makes no geographical distinctions" and that a "straightforward application" of the rule "would not preclude the 'first sale' defense from applying to authorized copies made overseas." *Id.* at 1363-64.

Each of these rationales applies equally to patent exhaustion. International patent exhaustion—just like the international copyright first sale doctrine—will promote the same consumer interests and avoid the same administrative burdens. The Court has previously noted parallelisms between the property interests in a copyright versus a patent. *See, e.g., Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (recognizing a "historic kinship between patent law and copyright law").

It was only after the Court in *Kirstaeng* discussed general common law property principles that it also analyzed whether the copyright statute (§109(a)) limited the common law rule disfavoring restraints on alienation of goods. *See Kirstaeng*, 133 S. Ct. at 1364. It found that although the copyright statute did address first sale, it did not mandate against exhaustion based on international sales. *See id.* Because the patent statute has no applicable statutory provision that needs analysis, it also does not limit the broad common law rule disfavoring restraints on alienation.

Moreover, *Boesch v. Graff*, 133 U.S. 697, 701-02 (U.S. 1890) does not support the Federal Circuit majority's position that international sales do not exhaust a patent. *Boesch* did not broadly hold that foreign sales cannot exhaust a U.S. patent. *See id.* at 701-02. Rather, in *Boesch*, there was no foreign sale that was "authorized" by the U.S. patentee (e.g., a sale from the U.S. patentee or from an entity licensed by the U.S. patentee)—rather, the sale in *Boesch* was from a third party who was only able to sell in Germany, under Germany patent law, because it had been doing so prior to the German patent application for the same technology. *Id.* at 701-02. *Boesch* recognized that the party attempting to import the patented product into the U.S. was doing so "without the license or consent of the owners of the United States patent." *Id.* at 702.

V. CONCLUSION

For the reasons discussed, this Court should grant *certiorari* to address the above Questions Presented.

April 21, 2016

Respectfully Submitted,

ROBERT A. SURRETTE
Counsel of Record
CHRISTOPHER M. SCHARFF
MCANDREWS, HELD AND MALLOY, LTD.
500 West Madison Street, Suite 3400
Chicago, Illinois 60661
(312) 775-8000
rsurrette@mcandrews-ip.com

Counsel for Amicus Curiae
Association of Medical
Device Reprocessors

RECORD AND BRIEFS

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No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF ASSOCIATION OF SERVICE AND COMPUTER DEALERS INTERNATIONAL, INC. AND OWNERS' RIGHTS INITIATIVE AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

W. Douglas Kari, Esq.
Counsel of Record
Principal in ASCDI Member
ARBITECH, LLC
Attorney for Amici Curiae
15330 Barranca Parkway
Irvine, California 92618
949-936-2302
doug.kari@arbitech.com

April 20, 2016

QUESTIONS PRESENTED

In *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), the Court held that textbooks manufactured and first sold abroad, which bore legends to the effect of "Not for sale in the United States," could lawfully be imported and resold in the U.S. under the first sale doctrine. This case presents essentially the same issues under patent law:

1. Whether "conditional sale" of a patented item—a sale that transfers ownership while purportedly imposing restrictions, much like the "Not for sale in the United States" legends in *Kirtsaeng* —trumps patent exhaustion, which is patent law's first sale doctrine.

2. Whether the principles underlying the holding in *Kirtsaeng*—that the first sale doctrine is based on common law's abhorrence of restraints on alienation and "makes no geographical distinctions"—apply with equal force in the patent arena.

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STATEMENT OF INTEREST

Because the questions presented have enormous practical implications, the organizations represented in this brief urge the Court to grant the petition. *Amicus curiae* Association of Service and Computer Dealers International, Inc. ("ASCDI") is a trade group of more than 300 small-to-medium technology companies. ASCDI members deal in technology products that practice U.S. patents and support technology users throughout America.

Amicus curiae Owners' Rights Initiative ("ORI") is a coalition that seeks to protect ownership rights in personal property. The steering committee consists of ASCDI; eBay Inc. ("eBay"), a global platform of online marketplaces, payment services, and retailing and marketing solutions; Redbox Automated Retail, LLC, a subsidiary of Outerwall Inc., which rents movies and games at approximately 35,000 automated kiosks nationwide; Radwell International, Inc., which sells and repairs industrial devices; United Network Equipment Dealers Association (UNEDA), an alliance of more than 250 used network equipment dealers; the American Library Association, which has more than 55,000 member libraries; and the Association of Research Libraries, whose more than 120 members include major university, national and public research libraries.

* The parties in this case have consented to the filing of this brief. Pursuant to Rule 37.6 of the Rules of the Supreme Court of the United States, *amici curiae* state that no counsel for a party has authored this brief, in whole or in part, and no person, other than *amici curiae* or its counsel, has made a monetary contribution to the preparation or submission of this brief.

THE CASE AT BAR IS PATENT LAW'S *KIRTSAENG*—AN ISSUE OF VITAL IMPORTANCE TO OWNERSHIP RIGHTS

Countless everyday items, ranging from clothing accessories to kitchen utensils, practice patents.[1] Technology products are often layered in patents—the average smartphone, for example, is covered by approximately 250,000 patents.[2] Thus, for anyone who owns or deals in personal property, it is vitally important to know where patent rights end and ownership rights begin.

Consistent with deeply-rooted legal principles, most owners have an intuitive sense of where the boundaries should lie. An eBay user who buys a video game[3] that was originally sold in Canada presumably knows that he should not "rip" the game by making pirated copies, but probably assumes that he can use his copy of the game in the

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[1] *See* World Intellectual Property Organization, "What Kind of Inventions Can Be Protected," *http://www.wipo.int/patents/en/faq_patents.html* (patented inventions range "from an everyday kitchen utensil to a nanotechnology chip"); Oliver Herzfeld, *Protecting Fashion Designs*, FORBES (Jan. 3, 2013), *http://www.forbes.com/sites/oliverherzfeld/2013/01/03/protecting-fashion-designs/#4950d7f473f8* .

[2] *See http://www.sec.gov/Archives/edgar/data/1509432/000119312511240287/ds1.htm#toc226103_11.*

[3] Video games are subject to numerous patents. *See* Ben Kuchera, *Patents on Video Game Mechanics Strangle Innovation, Fun*, ARS TECHNICA (Mar. 9, 2008), *http://arstechnica.com/gaming/2008/03/patents-on-video-game-mechanics-may-strangle-innovation.*

U.S. and later loan it to a friend. A traveler who buys a digital camera[4] in Germany has no reason to think that she secured manufacturing rights, but probably believes that she can bring her camera back home to the U.S. without it being seized as contraband.

However, prior to *Kirtsaeng*, uncertainty existed under copyright law about owners' rights to engage in such intuitively-reasonable transactions. Perhaps the most chilling example came when the Swiss watchmaker Omega etched a tiny, copyrighted design onto the casing of its Seamaster watches as a tactic to prevent unwanted importation and resale of the watches in the U.S.[5] When the Ninth Circuit Court of Appeals sided with Omega and this Court affirmed on a 4-4 split,[6] the possibility loomed that any product lawfully made and sold abroad could, at the copyright holder's whim, become illegal in the U.S.

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[4] Digital cameras are subject to numerous patents. *See* Steve Brachman, *Canon patent activity focuses on digital cameras and related technologies*, IPWATCHDOG (Jan. 30, 2015), *http://www.ipwatchdog.com/2015/01/30/canon-u-s-patent-activity-shows-focus-on-digital-cameras-and-related-technology/id=53814/*.

[5] See Doug Kari, *How an eBay Bookseller Defeated a Publishing Giant at the Supreme Court*, ARS TECHNICA (Nov. 25, 2014) 2, *http://arstechnica.com/tech-policy/2014/11/how-an-ebay-bookseller-defeated-a-publishing-giant-at-the-supreme-court*.

[6] *Omega v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), *aff'd*, 131 S. Ct. 565 (2010) (*per curium*).

The Court in *Kirtsaeng*, by confirming a rule of exhaustion without geographical limitations, struck the proper balance between copyright and ownership. The opinion by Justice Stephen Breyer garnered praise and there has been no legislation introduced in Congress to undermine it.[7] Put simply, the rule works.

However, in light of the Federal Circuit Court of Appeals' divided *en banc* decision in this case, once again uncertainty exists about the boundary between intellectual property rights and ownership rights. As Yogi Berra might say, it's "déjà vu all over again" as the issues in *Kirtsaeng* get re-litigated in the patent arena.

As set forth below, by reaffirming its decision in *Jazz Photo Corp. v, International Trade Commission*,[8] the Federal Circuit sanctioned geographical limitations on patent exhaustion which are wholly inconsistent with the first sale doctrine as articulated in *Kirtsaeng*—even though patent exhaustion and the first sale doctrine arise from the same com-

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[7] *See, e.g.*, Editorial, *The Limits of Copyright Law*, LA TIMES (March 20, 2013), *http://articles.latimes.com/2013/mar/20/opinion/la-ed-copyright-kirtsaeng-supreme-court-20130320*; Gary Shapiro, *Supreme Court Gives American Consumers Victory Over Copyright Owners in Kirtsaeng vs. John Wiley & Sons*, FORBES (March 20, 2013), *http://www.forbes.com/sites/garyshapiro/2013/03/20/supreme-court-gives-american-consumers-victory-over-copyright-owners-in-kirtsaeng-vs-john-wiley-sons*.

[8] 264 F.3d 1094 (Fed. Cir. 2001).

mon law principles.[9] By reaffirming its decision in *Mallinckrodt, Inc. v. Medipart, Inc.*,[10] the Federal Circuit embraced the sort of "Not for sale in the United States" post-sale restrictions that *Kirtsaeng* and other decisions of this Court have consistently rejected.

Amici curiae respectfully submit that unless the petition is granted and the decision below overturned, title to millions of items of personal property will be clouded, a pall will be cast over resale and rental markets, and infringement litigation floodgates will open—the sort of "horribles" that the Court in *Kirtsaeng* sought to avoid.[11] For these reasons, *amici curiae* respectfully urge the Court to grant the petition.

A. The Practical Concerns of *Kirtsaeng* Apply in the Patent Arena

A real-life example illustrates the stakes in this case. Five years ago Thailand was battered by typhoons—it was the worst monsoon season in half-a-century. Floodwaters inundated the industrial zone where most of the world's computer hard

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[9] *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (analogies between patent and copyright law are appropriate "because of the historic kinship between patent law and copyright law").

[10] 976 F.2d 700 (Fed. Cir. 1992).

[11] *See* 133 S. Ct. at 1366.

drives are manufactured.[12] ASCDI members, endeavoring to secure supply for their U.S. customers, began buying up hard drives from around the globe. Following are a few of the technology users in the U.S. who received shipments of hard drives that were acquired by ASCDI's membership during the worldwide hard drive shortage:

Defense	**Medical**	**Education**
US Navy Strategic Systems	VA Medical Center	Vassar College
Northrop Grumman	Texas Children's Hospital	Yale Public Schools
General Dynamics	St. Jude Medical	Brookdale College
Nonprofit	**Finance**	**Corporate**
NY Museum of Modern Art	Wells Fargo Capital	Alcoa Inc.
The Nature Conservancy	Farmers Nat'l Bank	Ticketmaster
Underwriters Laboratories	Bayview Financial	Nikon Inc.

(continued)

[12] Thomas Fuller, *Thailand Flooding Cripples Hard-Drive Suppliers*, NEW YORK TIMES (Nov. 6, 2011), *http://www.nytimes.com/2011/11/07/business/global/07iht-floods07.html.*

Legal	Small Business	Phone/Media
Sullivan & Cromwell	Tasty Tacos	AT&T Global
Weil, Gotshal & Manges	Marshalltown Tools	Verizon
Latham & Watkins	Coeur d' Alene Resort	RR Donnelley & Sons

The table above is just a sampling—ASCDI members imported thousands of hard drives to help relieve the shortage. However, hard drives are subject to numerous patents; the largest patent verdict in history involved hard drives.[13] Enforcement of the geographical limitations embraced by the Federal Circuit might have stopped these mission-critical products at the border—the type of practical concern that informed the Court's decision in *Kirtaseng*.[14] *Amici curiae* respectfully submit that that is reason enough for the Court to grant the petition.

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[13] *See* Joe Mullin, *Chipmaker Hopes to Overturn Largest Patent Verdict Ever: $1.5 Billion*, ARS TECHNICA (April 10, 2015), *http://arstechnica.com/tech-policy/2015/04/chipmaker-hopes-to-overturn-largest-patent-verdict-ever-1-5-billion.*

[14] *See* 133 S. Ct. at 1366.

B. As Recognized in *Kirtsaeng*, Common Law and IP Law Abhor Restraints on Alienation

Common law has a long tradition of abhorring restraints on alienation. *Kirtsaeng* cited a 1628 decision of Lord Coke, which held that restraining alienation of chattels was "against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man."[15]

Consistent with this time-honored principle, copyright law evolved the first sale doctrine to protect rights of alienation. In *Bobbs-Merrill Co. v. Straus*,[16] the publisher placed a legend inside the novel THE CASTAWAY, purporting to set a minimum retail price at which the book could be resold. The Court held this restriction to be unenforceable:

> [O]ne who has sold a copyrighted article. . . has parted with all right to control the sale of it. The purchaser. . . may sell it again. . . .[17]

Similarly, patent law developed the doctrine of patent exhaustion. When the patentees' successor in *Adams v. Burke*[18] tried to restrict the use of coffin lids beyond a ten-mile radius of Boston, the Court held that when a patentee "sells a machine

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[15] 133 S. Ct. at 1363.

[16] 210 U.S. 339 (1908).

[17] *Id.* at 350.

[18] 84 U.S. 17 Wall. 453 (1873).

or instrument whose sole value is in its use. . . he parts with the right to restrict that use."[19] In *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*,[20] when the patentee of a film projector tried to restrict the owner from using third-party film reels, the Court held that the film projector had been "carried outside the monopoly of the patent law and rendered free of every restriction that the vendor may attempt to put upon it."[21]

In copyright law, the first sale doctrine of *Bobbs-Merrill* became incorporated into the statutory framework.[22] In the patent arena, the doctrine of patent exhaustion remained a creature of common law—one that has repeatedly been reaffirmed. As recently as 2008, in *Quanta Computer, Inc. v. LG Electronics, Inc.*,[23] the Court reiterated the doctrine, unanimously holding that "the initial authorized sale of a patented item terminates all patent rights to that item."[24]

The court below veered far afield from *Quanta* and *Kirtsaeng*. By reaffirming *Jazz Photo*, the Federal Circuit abrogated the bright-line rule of exhaustion and made personal property rights dependent not simply on an authorized first sale,

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19 *Id.* at 456.

20 243 U.S. 502 (1917).

21 *Id.* at 516.

22 Currently codified at 17 U.S.C. § 109.

23 553 U.S. 617 (2008).

24 *Id.* at 625.

but also on the location where the first sale took place. By reaffirming *Mallinckrodt*, the court enabled an end-run around patent exhaustion—the sort of evasive tactic that this Court has repeatedly rejected.[25] *Amici curiae* respectfully submit that patent law needs to be brought back in line with the Court's prevailing authority.

C. The Concerns in *Kirtsaeng* about Access to Worldwide Trade Are Applicable Here

Limiting ownership rights in property first sold abroad, so that patent holders can practice price discrimination and limit supply in the U.S., does not fit with the intent of the Copyright & Patent Clause.[26] As the Court observed in *Kirtsaeng*, "the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices. . . ."[27] Instead the Court suggested that division of territorial

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[25] *See, e.g.*, *Kirtsaeng*, 133 S. Ct. at 1356 (restrictive legends on the book covers); *Bobbs-Merrill*, 210 U.S. at 350 (restrictive legend inside the book); *Adams v. Burke*, 84 U.S. 17 Wall. At 453 (ten-mile geographic limitation); *Motion Picture Patents Co.*, 243 U.S. at 502 (restriction barring third-party film reels).

[26] *See, e.g.*, *Motion Picture Patents*, 243 U.S. at 518 (the primary purpose of patent law isn't the "creation of private fortunes for patentees" but rather "to promote the progress of science and the useful arts" (quoting U.S. Const. Art I, § 8)).

[27] 133 S. Ct. at 1370-71.

markets is best handled through ordinary commercial practices such as contracts.[28]

This is a key concern, because although the patent term is shorter than the term for copyright protection, in the lifecycle of technology products it is practically forever. So what happens a few years out, when the patents remain in force, the products remain mission-critical to the user, but the manufacturer no longer carries spare parts?

Here is a real-world example: Because many defense systems continue to use older technology, defense contractors are sometimes "desperate to find the parts they need."[29] For more than three decades, ASCDI members such as Sotel Systems LLC in Maryland Heights, Missouri, have supplied technology equipment to the military, defense contractors and federal agencies. Sometimes the only way for them to supply these older parts is to acquire products that were first sold overseas.

These ASCDI members, when acquiring products in the world market to support their American customers, should not be faced with a Gordian knot of determining where the first sale took place, which U.S. patents may apply, and whether those patents remain in force. The approach in *Kirtsaeng*, which

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[28] *See id.* at 1371.

[29] Benj Edwards, *If It Ain't Broke, Don't Fix It: Ancient Computers in Use Today*, PCWORLD 2 (Feb. 19, 2012), *http://www.pcworld.com/article/249951/if_it_aint_broke_dont_fix_it_ancient_computers_in_use_today.html*.

vests rights of alienation in the owner, provides the market with simplicity and clarity.

D. The Federal Circuit's Approach Is Unworkable

As noted in *Kirtsaeng*, more than $2.3 trillion worth of foreign goods were imported into the U.S. in 2011, "many of these goods after a first sale abroad."[30] International online shopping has become a burgeoning market.[31] U.S. travelers spend billions of dollars shopping overseas.[32] These travelers and online shoppers reasonably expect that they can buy goods from around the world and enjoy full ownership rights, yet if the transactions were scrutinized by the Federal Circuit it is likely that many would be held infringing. Is the citizenry out of step with the law, or vice-versa?

Even if parties wanted to ensure that every patent-protected component was first sold in the

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[30] 133 S. Ct. at 1365.

[31] *See* Catherine Clifford, *International Online Shopping Expected to Almost Triple in Next 5 Years*, ENTREPRENEUR (July 22, 2013), *http://www.entrepreneur.com/article/227519*.

[32] Michael Armah and Teresita Teensma, *Estimates of Categories of Personal Consumption Expenditures Adjusted for Net Foreign Travel Spending*, BUREAU OF ECONOMIC ANALYSIS, U.S. DEPARTMENT OF COMMERCE 15 (April 2012) (estimated overseas spending by U.S. residents exceeded $119 billion in 2008, up from $78 billion in 2002), *http://bea.gov/scb/pdf/2012/04%20April/0412_pce.pdf*.

U.S. or had the patent holder's consent for use in the U.S., it would be next-to-impossible to conduct such an analysis.[33] Again, consider the smartphone: ubiquitous, actively traded, and implicated by approximately 250,000 patents.[34] How can a buyer ensure that none of the components in a smartphone was acquired abroad without the patent holder's consent?

In the proceedings below, patent interests dismissed such concerns as hypothetical, arguing in effect that the *Jazz Photo* geographical limitation fails in theory but functions in practice. But as the Court observed in *Kirtsaeng*, a "law that can work in practice only if unenforced is not a sound [] law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely enforced, would breed disrespect. . . ."[35]

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[33] *See* Christina Mulligan and Timothy B. Lee, *Scaling the Patent System*, 68 NYU ANNUAL SURVEY OF AM. LAW 289. 291-92 (March 16, 2012) (noting that the costs of researching, identifying. and analyzing the software patents relevant to a given product "are so high that most firms don't even try to avoid infringement by investigating them").

[34] *See http://www.sec.gov/Archives/edgar/data/1509432/000119312511240287/ds1.htm#toc226103_11.*

[35] *Kirtsaeng*, 133 S. Ct. at 1366.

CONCLUSION

The Federal Circuit's decision clouds title to millions of personal property items and casts a pall over countless transactions. It is unwise, unworkable and unwarranted under *Kirtsaeng*, *Quanta* and other prevailing authority. *Amici curiae* respectfully urge the Court to grant the petition.

Dated: April 20, 2016

Respectfully submitted,

/s/

W. Douglas Kari, Esq.
Counsel of Record
Principal in ASCDI Member
ARBITECH, LLC
Attorneys for Amici Curiae
15330 Barranca Parkway
Irvine, California 92618
949-936-2302
doug.kari@arbitech.com

No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF *AMICI CURIAE* OF AUTO CARE ASSOCIATION AND INTERNATIONAL IMAGING TECHNOLOGY COUNCIL IN SUPPORT OF THE PETITIONER

SETH D. GREENSTEIN
Counsel of Record
CONSTANTINE CANNON LLP
1001 Pennsylvania Ave., N.W.
Suite 1300 North
Washington, D.C. 20004
(202) 204-3500
sgreenstein@constantinecannon.com

Counsel for Amici Curiae Auto Care Association and International Imaging Technology Counsel

Becker Gallagher · Cincinnati, OH · Washington, D.C. · 800.890.5001

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STATEMENT OF INTEREST[1]

Amici are not-for-profit associations that, *inter alia*, represent the interests of companies that compete against original equipment manufacturers ("OEMs") for sale of replacement parts and consumable goods, and for provision of services that constitute lawful repair under the patent laws.[2]

Auto Care Association ("Auto Care") is a national trade organization of 3,000 members representing more than 150,000 independent businesses that manufacture, distribute, and sell motor vehicle parts, accessories, tools, equipment, materials, and supplies, and perform vehicle service and repair.

International Imaging Technology Council ("I-ITC") represents the interests of the imaging supplies industry, including office-machine retail and repair, office-supply retail, computer retail, repair and networking companies, and all related industry suppliers.

Companies represented by amici run the gamut from large, technologically-sophisticated entities with

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[1] The parties were given timely notice of the filing of this brief, and have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than amici curiae, its members, or its counsel made a monetary contribution to its preparation or submission.

[2] Various industries call these repair activities "rebuilding," "recharging," "reconditioning," "customization," or "remanufacturing."

substantial intellectual property portfolios to small operators that service local customers. The automotive and imaging technology products they service and sell contain removable and consumable parts that can be repaired or refurbished many times.

Consumers buy parts and service to extend the useful life of these products and enhance the value of their investments in durable goods. Members of the amici satisfy this consumer demand by providing alternative sources of consumable and replacement parts and services at lower cost, and of quality as good or better than those offered by the OEM. Replacement products often have enhanced features compatible with, but not available on, the original equipment. Competition from the aftermarket companies represented by the amici constrains OEMs from increasing prices to supracompetitive levels, and spurs OEMs to improve quality and innovate new features to meet or surpass the alternative-sourced products.

The companies represented by amici built their businesses on the right to repair equipment—a right directly derived from the patent exhaustion doctrine. The Federal Circuit's decision below[3] threatens that right to repair, by granting patentees new ways to preclude exhaustion and, thereby, block competition that benefits domestic commerce and consumer rights. Therefore, the amici respectfully submit this brief so the Court may better understand the harm the Federal Circuit's misinterpretation of the exhaustion rule will

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[3] *Lexmark Int'l, Inc. v. Impression Products, Inc.* Nos. 2014-1617, 2014-1619 (Fed. Cir. Feb. 12, 2016) (hereinafter "*Impression Products*").

cause harm to aftermarket commerce generally and our industries in particular, and the need for this Court to grant the petition.

SUMMARY OF ARGUMENT

People have the right to repair their cars and to refill their computer printers with toner and ink. Consumers buy these durable goods with the expectation that they can fine-tune their performance and replace and repair broken and spent parts to extend their useful life. They can re-sell those products to buyers who, in turn, expect to have those same repair and resale rights. And, they have the right to exercise these normal rights and perks of ownership free from claims of patent infringement.

Fulfilling these consumer expectations is a multi-billion dollar business for independent parts manufacturers and services. Repair and customization of automotive products by independent businesses (*i.e.*, not affiliated with any auto maker or dealership) last year constituted approximately 1.9% of the American economy, more than $340 billion. Tens of billions of dollars were spent by consumers on refurbished and remanufactured printer cartridges.

All of these businesses are lawful because of this Court's long-standing precedents holding the authorized sale of a patented article exhausts the patentee's right to seek further reward upon that article. This exhaustion principle finds its roots in the common law, not in the Patent Act; and as this Court held in *Kirtsaeng*, common law exhaustion has no

geographic limitations.[4] After an authorized sale, any attempt to further restrain the post-sale rights of a purchaser is to be adjudged under contract and commercial law, but no longer is subject to the patentee's rights or a patent-based remedy. This articulation of the exhaustion rule properly balances the patent owner's exclusive rights with the consumer's right to reuse, resell, repair, and improve lawfully-acquired property, and the public interest to prevent unfair competition.

Federal Circuit decisions upend this balance, to the detriment of competition and the public interest. The two lines of cases from *Mallinckrodt*[5] and *Jazz Photo*[6] to *Impression Products* revive exhausted patent rights, and deem purchasers of domestic and imported patented goods and third party aftermarket competitors liable for patent infringement from otherwise-lawful repair. *Impression Products* would outlaw commonplace activities, such as repair and customization of elements of a personal computer, an automobile, or any products with consumable or repairable parts, and would impose patent infringement liability upon competitors who engage in otherwise lawful repair. Consumers and aftermarket competitors targeted by these post-sale restrictions

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[4] *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363-1364 (2013).

[5] *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

[6] *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001).

may not know whether the restriction exists or, even if embossed on the device itself, whether the restriction is valid or enforceable. Yet, under *Impression Products*, these consumers and aftermarket competitors could be sued and potentially held liable for patent infringement.

The threat of potentially devastating patent infringement liability chills competition by aftermarket businesses. Patent suits involve technically complex issues of infringement, claim construction, and validity, and are extremely expensive to defend. Enhanced damages, attorney fees, and preliminary and permanent injunctive relief pose intolerable risks for smaller entrepreneurial companies. By contrast, suits based on contract, as should be the norm under the Court's exhaustion rule, are far less expensive to defend and less likely to jeopardize a company's long-term survival. Reaffirmation of this Court's exhaustion rule will protect the public's right to repair and stimulate investment in aftermarket industries.

Reaffirming the scope of patent exhaustion will restore the proper balance between patent rights and antitrust law. Post-sale patent conditions and infringement lawsuits typically target competitors for supplies and repair services rather than purchasers that purportedly agreed to the restrictions. By misinterpreting the scope of patent exhaustion, the Federal Circuit necessarily proscribes lawful aftermarket competition and limits antitrust defenses – thereby restricting consumer choice, increasing consumer prices, and stifling aftermarket innovation.

ARGUMENT

I. THE COURT SHOULD GRANT THE PETITION TO RESOLVE ISSUES OF VITAL IMPORTANCE TO AFTERMARKET INDUSTRIES THAT REPAIR, CUSTOMIZE, AND RESELL PATENTED ARTICLES.

The petition for certiorari well exposes the flaws in the Federal Circuit opinion as a matter of patent law—in particular, its conflation of the distinct consequences of patent licensing versus authorized sales under this Court's precedents; and its rejection of this Court's holding that the common law principles that undergird both copyright *and* patent exhaustion have no geographic constraints.

Amici address a different failure of the Federal Circuit opinion: its presumption (despite some 15 amicus briefs to the contrary) that limiting the scope of patent exhaustion would inflict none of the types of commercial harms that so concerned the Court in *Kirtsaeng*. *Impression Products* at 56-57. As described below, Lexmark's conduct already has inflicted that very type of commercial injury on the imaging products aftermarket—stifling remanufacture of spent printer cartridges, and increasing consumer costs through supracompetitive pricing.

If other printer manufacturers follow the *Impression Products* roadmap, an independent imaging industry would cease to exist, and consumers would pay tens of billions of dollars more for cartridges that are no better than independently remanufactured alternatives. If these types of restraints were adopted by the automotive industry, the impact on competition

for parts and service, and on prices paid by consumers, would reach into the hundreds of billions of dollars.

A. The Aftermarket Industries Represented by Amici Contribute Hundreds of Billions of Dollars Annually to American Commerce.

1. Aftermarket competition contributes substantially to the American economy.[7] More than 150,000 independent businesses in the United States participate in the market for automotive vehicle equipment, parts and service, providing employment to more than 4.3 million workers. In 2015, nearly $341 billion was spent on motor vehicle repair and maintenance in the United States, or more than 1.9% of gross domestic product. Following expiration of a new car warranty, over 70% of car owners who patronize auto repair shops relied on independent repair shops over new car dealers. Approximately 20% of American consumers bought automotive parts and products to maintain, repair, and customize their own vehicles.

The right to repair motor vehicles has attained greater importance over the last decade. A steady trend shows American consumers and businesses keep their cars and trucks in service longer. On average, new car buyers in 2015 own their vehicles for 6.5 years, and used car buyers keep those cars on the road for 5.3 more years–nearly 12 years—and more than 4 years

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[7] *See, Eastman Kodak Co. v. Image Technical Servs. Co.*, 504 U.S. 451, 462 and n.6 (1992). *See also, Aro Mfg Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 357-358 (1961) (*"Aro I"*) (Justice Black, concurring).

longer than the average in 2006.[8] As cars advance in age, so does the need for consumers and businesses to repair and replace vehicle parts. Studies confirm consumers prefer to obtain parts and service from independent businesses rather than dealerships—benefitting from reduced costs, greater convenience, and higher consumer satisfaction from local repair shops and neighborhood mechanics.[9]

An estimated 2,000 domestic businesses employ some 50,000 people in the United States to recondition and repair office imaging supplies. In 2014, consumers spent more than $13 billion for repair and maintenance of electronic and precision equipment, approximately $6 billion of which was attributable to computer and office machine repair and maintenance.[10] Approximately 30% of toner and ink-jet cartridges sold

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[8] News Release, IHS, *Average Age of Light Vehicles in the U.S. Rises Slightly in 2015 to 11.5 years*, July 29, 2015, http://press.ihs.com/press-release/automotive/ average-age-light-vehicles-us-rises-slightly-2015-115-years-ihs-reports; Phil LeBeau, *Americans holding onto their cars longer than ever*, CNBC, July 29, 2015, www.cnbc.com/2015/07/28/americans-holding-onto-their-cars-longer-than-ever.html.

[9] *Independent vs. dealer shops for car repair*, Consumer Reports, Jan. 22, 2015, www.consumerreports.org/cro/magazine/ 2015/03/best-places-to-get-your-car-repaired/ index.htm.

[10] U. S. Census Bureau, 2014 Annual Services Report, Table 2: Estimated Revenue by Tax Status for Employer Firms: 2007 through 2014, www.census.gov/services/index.html.

last year were aftermarket products, at a price approximately 50-60% less than new OEM cartridges.[11]

2. Reuse and repair promote sound environmental policies, and conserve resources such as precious metals and petroleum-based plastics. Rebuilding automotive parts typically re-uses 88% of the raw material from the original parts. Rebuilding engines saves 50% of the energy required to produce a new engine. I-ITC estimates reconditioning ink and toner cartridges will keep some 84,000 tons of industrial-grade plastics and metals out of landfills this year. Every remanufactured cartridge saves an estimated 3-4 quarts of oil.[12]

Acquisition guidelines of federal agencies, state and municipal governments, and corporations give preference to purchasing refurbished and recycled products such as those produced by members of the amici.[13] Indeed, the computer printers in Court chambers likely run on recycled remanufactured cartridges.

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[11] *Compare, e.g.,* www.staples.com/Lexmark-T650H11A-Black-Return-Program-Toner-Cartridge-High-Yield/product_760469 ($496.99 new) *with* www.amazon.com/Print-Save-Repeat-Lexmark-T650H11A-Remanufactured-Cartridge/dp/B004YUDM5M ($168.95 remanufactured).

[12] *See* Clover Technologies, 2014 Sustainability Report at 9 (estimating savings of 7,177 barrels of oil from collecting nearly 23 million cartridges), www.clovertech.com/flashpages/sustainability_report/#p=9.

[13] Environmental Protection Agency, Comprehensive Procurement Guidelines, Non-paper Office Products, https://www3.epa.gov/epawaste/conserve/tools/cpg/products/nonpaperoffice.htm#toner.

B. The Petition Should be Granted, Otherwise Patent Owners Will Continue to Exploit Uncertainty Over the Scope of Patent Exhaustion to Quash Aftermarket Competition.

1. As this Court held in *Quanta*, patent rights are exhausted upon the first authorized sale, and so purchasers of patented articles have the right to use those articles free of postsale patent restraints.[14] The patentee obtains its reward through the initial authorized sale, but the sale or passage of title to a patented article exhausts the patentee's interest in that article under patent law. Exhaustion extends to any patent covering reasonable uses of the patented article.[15] If a patent owner seeks to impose any post-sale restriction on use or resale of the article, the validity and enforceability of that restriction is to be determined by state contract law – not patent law.[16]

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[14] *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008) ("The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article."); *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942) ("[The patent owner's] monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article").

[15] *Id.*, 316 U.S. at 250-251 (sale of the lens blank transfers ownership of the article and licenses the right to use the patent to produce the finished article).

[16] "The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special

2. Though patentees like Lexmark ostensibly position their post-sale conditions as a contract with the purchaser, in truth they deploy these restrictions solely to lock out aftermarket competition for products and services that otherwise would constitute permissible repair under the patent laws. As this Court recently observed, Lexmark attempts to restrict remanufacture of toner cartridges for Lexmark printers by placing contract terms on the outside of its boxes purporting to require the purchaser to return the cartridge for recycling or remanufacture only to Lexmark, and therefore not to independent remanufacturers.[17]

Currently, Lexmark stands alone among the major printer manufacturers in its attempts to leverage *Mallinckrodt* and *Jazz Photo* against competition from independent remanufacturers. Regrettably, its efforts have succeeded. Independent aftermarket companies estimate they remanufacture as much as 90-95% of the

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contract between the owner of a patent and the purchaser or licensee is a question outside the patent law ...." *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 509 (1917), *citing Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 666 (1895) ("[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws."). *See Quanta*, 553 U.S. at 637 n.7.

[17] *See Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 572 U.S. ___, 134 S. Ct. 1377, 1383-84 (2014).

remanufactured laser printer cartridges of leading printer brands such as HP. As a result of that competition, prices for new HP cartridges fell. For Lexmark cartridges, the number is far smaller—by some estimates, a scant 5-10%—and Lexmark's prices have increased.[18]

Prior to *Impression Products*, independent remanufacturing of Lexmark cartridges was on the rise. The district courts in *Static Control* and *Impression Products* held, on the first question presented by the petition, that *Quanta* had reversed the Federal Circuit-made "conditional sales" doctrine of *Mallinckrodt*, and that Lexmark's post-sale restrictions could not be enforced against third party remanufacturers under patent law.[19] As a result, the industry had greater confidence that remanufacture of Lexmark cartridges sold domestically did not infringe Lexmark's patents. *Impression Products* has upended industry expectations, and exacerbated existing uncertainty over the future of independent remanufacturing for Lexmark and all OEM products.

3. Although printer cartridges have been the poster child for postsale restrictions on patent exhaustion, concerns for the future of remanufacturing hardly are

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[18] *See Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387, 396 & n.3 (6th Cir. 2012).

[19] *Lexmark Int'l, Inc. v. Ink Techs. Printer Supplies, LLC*, No. 1:10-CV-564, 2014 WL 1276133 (S.D. Ohio Mar. 27, 2014); *Static Control Components v. Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575 (E.D. Ky. 2009); *see Static Control v. Lexmark*, 697 F.3d at 421 (affirming finding of non-infringement and thereby declining to review exhaustion holding).

confined to the imaging industry. Automotive OEMs assert that copyright "first sale" exhaustion does not apply to consumers who purchase their vehicles because, they claim, consumers only license rather than purchase parts embedded with software code.[20] Consequently, in the OEMs' view, parts ranging from transmissions and oxygen sensors to window motors, seat positioning, and wipers,[21] can neither be independently manufactured nor lawfully repaired by anyone other than an OEM or authorized dealership. While the OEMs have limited their attacks on the exhaustion doctrine to copyright first sale (and anticircumvention provisions of the Digital Millennium Copyright Act), it takes little imagination to see how these OEMs could, by merely applying a "single use only" legend, use *Impression Products* to divert the

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[20] *See, e.g.*, U.S. Copyright Office, *In the Matter of Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies*, Dkt. 2014-07, www.copyright.gov/1201/2015/reply-comments-050115/, Comments of John Deere (Mar. 27, 2015) at 5: "A vehicle owner does not acquire copyrights for software in the vehicle, and cannot properly be considered an 'owner' of the vehicle software"; *id.*, Comments of General Motors, at 10-12. The remanufacturing industry immediately understood the impact of these arguments, as did the press: *See* Mike Masnick, *GM Says That While You May Own Your Car, It Owns The Software In It, Thanks To Copyright*, Techdirt, Apr. 23, 2015, www.techdirt.com/articles/20150421/23581430744/gm-says-that-while-you-may-own-your-car-it-owns-software-it-thanks-to-copyright.shtml.

[21] *See*, Robert N. Charette, *This Car Runs on Code*, IEEE Spectrum, Feb. 1, 2009, http://spectrum.ieee.org/transportation/systems/this-car-runs-on-code. As one example, the 2015 GM sport utility vehicle platform uses some 70 modules to control physical part operations.

$341 billion currently earned by independent competitors back into their own pockets.

4. These concerns further are exacerbated by the Federal Circuit's re-imposition of geographic restrictions on exhaustion. To illustrate the flaws in the Federal Circuit's ruling, consider how the Federal Circuit's opinion eliminates patent exhaustion under the following scenarios:

- An OEM's wholly-owned foreign subsidiary assembles automobiles, and sells them to a domestic subsidiary that sells the cars to a domestic dealer, which then sells to consumers.
- An OEM's wholly-owned foreign subsidiary manufactures car parts which it sells to a domestic subsidiary, which are assembled in the United States for sale to a dealer and then to a consumer.
- OEM automobile parts made in the United States are remanufactured by the OEM's subsidiary in Mexico, then re-sold by the subsidiary to an OEM-authorized repair shop in the United States.

These are not mere hypotheticals. According to figures submitted by vehicle manufacturers to the U.S. government, virtually no automobiles and light duty trucks sold in the United States are assembled entirely from domestically-made parts, and many cars from foreign and domestic automakers are made entirely abroad and imported from plants in Canada and

Mexico, as well as Europe and Asia.[22] Restricting patent exhaustion only to domestically-sold goods thus could create havoc with automotive repair.

The realities are even worse for the imaging aftermarket. Title to a toner cartridge typically may pass in several authorized sales before it reaches the end-consumer–from an OEM to one or more retailers or middleman suppliers, and then to the end-purchaser. Lexmark's contractual restriction arises only upon opening the box and inserting the cartridge, *i.e.*, after title has passed to the end-purchaser. Yet, under *Impression Products*, none of the prior authorized sales would have exhausted Lexmark's patent rights.

Moreover, cartridges returned to Lexmark for recycling or remanufacture[23] may be refilled and repaired by Lexmark in a foreign factory, slapped with another restrictive label, and placed in a new box that asserts anew revived patent rights – and sold several more times in authorized sales.

Given that a cartridge can be repaired and refilled multiple times, title may pass to any particular cartridge in 20 or more authorized sales. Yet, the Federal Circuit's opinion grants Lexmark essentially perpetual control over the life of that cartridge, and exposes any end-purchaser that gives the cartridge to another remanufacturer, and any independent

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[22] *See* National Highway Traffic Safety Administration, American Automobile Labeling Act Reports, www.nhtsa.gov/Laws+&+Regulations/Part+583+American+Automobile+Labeling+Act+(AALA)+Reports.

[23] *Lexmark Int'l v. Static Control Components*, 134 S. Ct. at 1383.

remanufacturer, to potential liability for patent infringement.

5. Finally, *Impression Products* fails to recognize the practical impossibility for the aftermarket to know whether a particular patent owner has voluntarily acceded to patent exhaustion. Lexmark's conduct provides an object illustration of the Federal Circuit's presumptive non-exhaustion rule. Lexmark accused Static Control of active inducement and contributory patent infringement for providing components for Lexmark-manufactured cartridges under the IBM label, and sought damages and injunctive relief based on the remanufacture of spent IBM cartridges. Only years later did Static Control learn in discovery that no patent-based post-sale restrictions were asserted over hundreds of thousands of IBM cartridges.[24] If *Impression Products* is not reversed, competitors cannot presume patent exhaustion upon an authorized sale, and the ability to repair and remanufacture may only be determined through litigation. This Court's precedents provide the only sensible rule, by deeming that patent exhaustion occurs upon an authorized sale anywhere in the world.

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[24] *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 487 F. Supp. 2d 830, 854 (E.D. Ky. 2007). *See also Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d at 417.

II. THE PETITION PRESENTS A PROPER AND TIMELY VEHICLE TO RESOLVE THESE FUNDAMENTAL ISSUES.

Patent law vests the patentee with a limited monopoly interest, the full extent of which is an exclusive right to make, use, and sell the invention or discovery or to authorize others to do so. *United States v. Univis Lens Co.*, 316 U.S. at 250. As a statutory exception to policies disfavoring monopolies, the patent right imposes some sacrifice upon social welfare in return for patent owners' contributions to the progress of science and the useful arts. The degree of sacrifice required of the public is proportional to the scope of the patent right. Any aggrandizement of private patent rights necessarily encroaches on public interests. Thus, a clear delineation of the respective rights of patentees and the purchasers and users of patented articles implicates fundamental issues for domestic and global commerce.

Long-established doctrines of patent and competition law reflect the inherent tensions between a patent owner's right to reap rewards for its invention and the right of the public to engage in commerce around the patented invention and in the patented article itself. The exhaustion doctrine performs a key role in leveling this balance. By setting clear limits on the right of a patent owner to control downstream commerce in vended patented articles, the exhaustion doctrine shapes the contours of the public's right to resell, reuse, recycle, and repair the patented article.

The exhaustion doctrine articulated by this Court struck the proper balance among those interests. But the Federal Circuit in *Impression Products* has turned

the tables, and given patent owners a "how-to" primer in preventing authorized sales from exhausting patent rights. Amici urge the Court to grant the petition, so as to restore certainty to the aftermarket, and to return fairness and equilibrium to the public and private interests implicated by patent law.

1. The petition addresses the two most pressing issues of patent exhaustion for aftermarket competition: whether the aftermarket can be shut down by a mere four words—"for single use only"; and whether a U.S. patent holder can foreclose aftermarket competition merely by moving more manufacturing jobs offshore. Both have been front-burner issues for the imaging supplies industry for the nearly 20 years since Lexmark instituted its "prebate" program. If restrictive legends have not yet taken root in other industries, it is primarily because their legality has been challenged in the market and in the courts by companies like Static Control—and because, to date, decisions on this key issue have largely favored the aftermarket industry. The geographic scope of patent exhaustion has become an equally open question since this Court's *Kirtsaeng* decision.

Whatever uneasy peace previously existed between OEMs and remanufacturing interests has ended with *Impression Products*. If the Court does not grant the petition, patent owners will become emboldened to further restrict exhaustion, and remanufacturers would be well advised to curtail their businesses so as not to become the next test case for possible certiorari to this Court. If the Court grants the petition, then patentees and their competitors know they soon will have an answer to these vexing questions.

2. Few facts are necessary to decide both these issues, and those limited facts are present in the record. The Court's decision therefore would draw bright lines that leave little room for ambiguity or equivocation in the outcome for future cases.

3. The Federal Circuit's opinion fails to alleviate any of the ambiguities that continue to frustrate today's aftermarket. Even for articles marked with a restrictive legend, the mere existence of such a "notice" does not make it *per se* valid or enforceable at law – a fact demonstrated by other post-*Mallinckrodt* cases in which the Federal Circuit held nearly-identical "single use only" product markings did *not* create a restrictive patent license.[25] Thus, even if consumers and aftermarket competitors actually see the purported post-sale notice, they cannot be expected to know what rights they have to repair devices they lawfully own. Even after *Impression Products*, these businesses and consumers still face the Hobson's choice to either stop doing business or roll the dice in a suit for patent infringement—and face the possibility of paying enhanced damages, injunctive relief, attorney fees, and costs.

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[25] *See, e.g., Kendall Co. v. Progressive Medical Tech. Inc.*, 85 F.3d 1570, 1575 (Fed. Cir. 1996), finding permissib' e repair by replacing with aftermarket parts a pressure sleeve sold in packaging marked "for single patient use only"; *Sage Prods. Inc. v. Devon Indus. Inc.*, 45 F.3d 1575, 1578 (Fed. Cir. 1995), finding repair by aftermarket replacement of used, but not spent, containers marked "single use only."

4. These issues long have percolated in the lower courts,[26] with conflicting results. District courts have attempted to interpret how the Supreme Court would rule on these issues, and how decisions such as *Quanta* and *Kirtsaeng* would or would not affect the outcome. The Federal Circuit now has reached results at odds with these district courts. Based on the scope of appellate jurisdiction of the several judicial circuits, it is unlikely that another court of appeals will have any opportunity to consider whether a different rule better comports with this Court's precedents.

As Justice Black observed in his concurrence in *Aro I*, small repair and service businesses such as those represented by amici provide vital services to the domestic economy, but need bright line rules to avoid the "disastrous or even lethal consequences" of patent infringement suits:

> [B]usinessmen are certainly entitled to know when they are committing an infringement. ... But to what avail these congressional precautions if this Court, by its opinions, would subject small businessmen to the devastating uncertainties of nebulous and permissive standards of infringement under which courts could impose treble damages upon them for making parts, distinct, separable, minor parts,

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[26] Amici note that Lexmark filed its complaint against Static Control, first raising issues relating to patent exhaustion and "prebate," in December 2002. Another early case did not seek to reverse *Mallinckrodt*, but upheld the Lexmark label as a valid contract under California unfair competition and false advertising law. *Arizona Cartridge Remanufacturers Ass'n v. Lexmark Int'l Inc.*, 421 F.3d 981, 987 (9th Cir. 2005).

> or even major parts of a combination patent, upon which parts no patent has been or legally could have been issued.[27]

The businesses of members of the amici, and consumers of aftermarket products and services, have incurred the risks of uncertainty for too long. Amici thus urge this Court to grant the petition, and to recalibrate the law in accordance with its established precedents defining the scope of exhaustion, permissible repair, and unfair competition.

CONCLUSION

The petition for certiorari should be granted.

Respectfully submitted,

SETH D. GREENSTEIN
Counsel of Record
CONSTANTINE CANNON LLP
1001 Pennsylvania Ave., N.W.
Suite 1300 North
Washington, D.C. 20004
(202) 204-3500
sgreenstein@constantinecannon.com

Counsel for Amici Curiae
Auto Care Association and
International Imaging Technology
Counsel

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[27] 365 U.S. at 358-359.

RECORD AND BRIEFS

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In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF COSTCO WHOLESALE CORPORATION, LG ELECTRONICS INC., RETAIL LITIGATION CENTER, INC., AND SK HYNIX INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

ROY T. ENGLERT, JR.
ARIEL N. LAVINBUK
Counsel of Record
DANIEL N. LERMAN
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, NW
Suite 411L
Washington, D.C. 20006
(202) 775-4500
alavinbuk@robbinsrussell.com

Counsel for Amici Curiae

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BRIEF OF COSTCO WHOLESALE CORPORATION, LG ELECTRONICS INC., RETAIL LITIGATION CENTER, INC., AND SK HYNIX INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

INTEREST OF THE *AMICI CURIAE*[1]

Amici are leading manufacturers, retailers, and industry groups with a substantial interest in the proper resolution of this appeal.

- Costco Wholesale Corporation is the second-largest retailer and the largest membership-warehouse club in the United States.
- LG Electronics Inc. is one of the world's leading manufacturers of a wide variety of consumer electronics, mobile devices, and vehicle components.
- The Retail Litigation Center, Inc., is a public policy organization whose members include many of the country's largest retailers.
- SK hynix Inc. is one of the world's largest manufacturers of semiconductors and memory chips.

[1] Counsel of record for all parties received notice of the *amici*'s intent to file this brief at least ten days before its due date. The parties consented to the filing of this brief, and written documentation of their consent is being submitted concurrently. No counsel for a party wrote this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amici curiae*, their members, or their counsel made a monetary contribution intended to fund its preparation or submission.

Amici depend on an efficient and administrable first-sale doctrine. Product manufacturers require certainty regarding their ability to incorporate into products patented components acquired by their supply chain. And retailers likewise depend on the ability to resell products that they purchase from patentees and authorized licensees. *Amici* therefore have a significant interest in preventing unlawful restrictions on the free use and flow of duly purchased patented goods.

SUMMARY OF ARGUMENT

"For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item." *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 621 (2008). The Federal Circuit's decision below undermines the first-sale doctrine in two respects. It reaffirmed *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), holding that a patentee can use the *patent law* to restrict the use or sale of patented articles after an initial authorized sale. And it reaffirmed *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), holding that the first-sale doctrine does not apply to foreign sales of patented articles. Those limitations on the first-sale doctrine have profound implications for businesses and consumers, and conflict with this Court's precedents.

I. This is an important case. Goods of all kinds—even seemingly simple ones—often are composed of multiple components that are themselves patented. Under the Federal Circuit's rule, product developers will need to trace the

provenance of every component purchased and determine whether any individual component was first sold abroad—or was sold domestically with some "condition" on future use or resale. The post-sale restraints authorized by the decision below cast a pall of uncertainty on the sale and resale of goods, and impose enormous costs on manufacturers and retailers alike.

Consumers will also suffer. The implication of the Federal Circuit's limitation on the first-sale doctrine is that a tourist who purchases a patented product abroad cannot take that product back to the United States—or use it here—without committing patent infringement. That cannot be right.

This Court recognized these same concerns in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). The decision below brushes aside those concerns as copyright-specific. But this Court's decision was not so circumscribed. To the contrary, this Court explained that a robust first-sale doctrine is essential to protect the free flow of goods, and expressly addressed the implications for sales of cars, calculators, and computers—products that are undoubtedly subject to patents as well as copyrights. *Id.* at 1364-66.

II. The decision below is wrong and conflicts with this Court's precedents. "The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta*, 553 U.S. at 625. The doctrine is grounded, in part, on the notion that the purposes of the patent law are fulfilled with respect to a patentee when the patentee has received his "reward" through the sale of that article. The

Mallinckrodt doctrine embraced by the decision below violates that rule by allowing patentees to impose restrictions on the use or sale of an article *after* the patentee has already received his reward. That is not to say that patentees are powerless to impose any restrictions on the use of a patented article. Patentees, like other property owners, are free to place *contract*-based restrictions on the use of their goods. But this Court has consistently made clear that such rights cannot be enforced through the *patent law*.

The majority below contends that the limitations it grafted onto the first-sale doctrine are compelled by the Patent Act, which grants patentees an unfettered right to exclude others from making, using, or selling patented items. This Court has already rejected that precise argument, however, holding that the right to exclude does *not* translate into a right to impose post-sale conditions on the use or sale of a patented item.

At bottom, the decision below rests on the proposition that sales should not be treated differently from licenses. But the distinction between licenses and sales is as old as the first-sale doctrine itself—and an authorized sale, whether made directly by the patentee or indirectly via an authorized licensee, has always placed an item beyond the reach of the patent monopoly.

With respect to international exhaustion, the decision below contends that *Kirtsaeng* is beside the point, because patent law is not *always* the same as copyright law. But the question here is only whether there is any reason to treat *exhaustion* differently in the patent and copyright contexts. There is not. The

common-law's longstanding disapproval of restraints on alienation—on which this Court relied in *Kirtsaeng*—is equally applicable in the patent context, and compels the conclusion that the first-sale doctrine applies to patented articles lawfully sold abroad.

ARGUMENT

I. THIS CASE IS OF GREAT IMPORTANCE TO BUSINESSES AND CONSUMERS ALIKE

This Court has long acknowledged the centrality of the first-sale doctrine to the orderly operation of markets:

> [O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. . . . The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.

Keeler v. *Standard Folding-Bed Co.*, 157 U.S. 659, 666-67 (1895).

The decision below chips away at the clarity provided by the first-sale doctrine. It eliminates the doctrine entirely for patented articles that happen to be first sold abroad—and gives patentees near unlimited power to do the same for articles first sold domestically, so long as their chosen restrictions on future alienation are simply communicated clearly.

Given the complexity of the modern supply chain, such diminution of the first-sale doctrine creates enormous complication and inefficiency—the ultimate effect of which is higher costs for

consumers. As the dissent below observed, the "[p]ost-sale restraints" invited by the majority's decision "would 'cast a cloud of uncertainty over every sale.'" Pet. App. 117a (quoting *Tessera, Inc.* v. *Int'l Trade Comm'n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011)). Such a practical problem is "too serious, too extensive, and too likely to come about for [this Court] to dismiss [it] . . . as insignificant." *Kirtsaeng*, 133 S. Ct. at 1367.

1. Goods of all kinds—computers, smartphones, automobiles, and even medicines—incorporate innumerable components made throughout the world. One report tracking iPhone production, for example, identified 785 different suppliers in 31 countries. *See* Ian Barker, *The Global Supply Chain Behind the iPhone 6*, http://goo.gl/ehweyR. And the iPhone is not unique: "computer hardware and software contain an incredibly large number of incremental innovations." Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, Executive Summary*, at 6 (Oct. 2003), http://goo.gl/auSnUJ. Even "a given semiconductor product . . . will often embody hundreds if not thousands of 'potentially patentable' technologies," and that is just one part of a consumer device. Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979–1995*, 32 RAND J. Econ. 101, 110 (2001).

If the decision below stands, each product developer and manufacturer would be required to trace to origin the patent rights of every single component it purchases. If it turns out that any

individual component was first sold abroad—or even domestically, but subject to a condition on future reuse or resale—the manufacturer would then be required to negotiate an appropriate licensing agreement with the component manufacturer (as well as any sub-component manufacturer). And all of this would be *over and above* the standard purchase contract for each component itself.

Further complicating matters, many products are developed subject to worldwide licensing agreements under which a licensee pays royalties on every product it makes that practices a licensor's patents (U.S. or foreign), regardless of where those products are ultimately sold. Under the Federal Circuit's exhaustion rules, products made by that licensee that end up being sold in the United States would exhaust the licensor's patent rights, but those same products, made by the same licensee, pursuant to the same worldwide licensing agreement that happen to be sold outside the United States would *not* exhaust such rights. That arbitrary distinction would require downstream manufacturers and consumers to keep track of not only *who* produced a patented item but *where* it was first sold, even though the original contract between the licensor and licensee drew no such distinction.

Consider, for example, a manufacturer of touch-screen displays that owns patents covering that technology. It sells its displays, outside the United States, to a manufacturer of GPS console devices. The GPS manufacturer incorporates the touchscreen displays into its GPS devices overseas and them imports them into the United States. Those devices are, in turn, sold to an automobile manufacturer that

incorporates them into its navigation console. The automobile manufacturer then sells its cars to U.S.-based dealerships for sale in the United States.

Under the Federal Circuit's exhaustion rule, even though the display manufacturer voluntarily sold its products to the GPS manufacturer at a price of its choosing, the former can nonetheless sue the latter, *and* the automobile manufacturer, *and* the U.S. dealership for direct or indirect patent infringement, unless all of those parties negotiate a specific license for U.S. importation and use. The exact same result would follow even if the display manufacturer first sold its wares in the United States but did so with a condition restricting future resale or use.[2]

These concerns are only exacerbated by the proliferation of non-practicing entities ("NPEs"), who buy patent rights from inventors that may have once authorized the practice of their patents pursuant to worldwide licenses. *See eBay Inc.* v. *MercExchange,*

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[2] Perversely, the Federal Circuit's view that international sales do not exhaust patent rights creates an incentive for U.S. patentees to manufacture their goods abroad. If a patentee manufactures and sells a good within the United States, the sale normally exhausts all patent rights. Even assuming *Mallinckrodt* was correctly decided, the patentee may be able to constrain future alienation only through a clearly communicated condition at the time of sale. Under *Jazz Photo*, however, the patentee need not even bother to do that if it shifts production and sales overseas. Congress could not possibly have intended the patent laws to create such "an inefficient incentive to shift domestic production abroad." Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 Cardozo L. Rev. 55, 142 n.380 (2001); *see also Kirtsaeng*, 133 S. Ct. at 1322.

L.L.C., 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining license fees."). Because under the decision below foreign sales do not exhaust the patent rights—even when *royalties may have already been paid on them*—NPEs can threaten product manufacturers and their downstream U.S. customers with infringement actions in order to extract *additional* royalties on products used in the United States. These lawful downstream purchasers, in turn, then seek indemnification from the manufacturer—who, of course, already paid a royalty to the original patent holder upon its first sale abroad. The manufacturer is nevertheless obligated to defend the suit or pay yet another royalty to the NPE.[3]

Because supply chains involve dozens, if not hundreds, of suppliers and sub-manufacturers, all located around the world, the impracticality of such a cramped exhaustion regime is manifest. If product manufacturers are unable to rely on the authorized first sale of a component as duly exhausting all patent rights to that component—whether flowing from the component's maker or from incorporated

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[3] The decision below elides this concern by suggesting it can be addressed by the doctrine of "implied license." Pet. App. 90a. But the Federal Circuit has itself acknowledged that "judicially implied licenses are rare under any doctrine," (*Wang Labs., Inc.* v. *Mitsubishi Elecs. Am., Inc.*, 103 F.3d 1571, 1581 (Fed. Cir. 1997)), and in practice they are almost impossible to prove in suits involving NPEs because of the lack of any substantial course of conduct between the parties.

subcomponents—licensing-compliance costs could be staggering.

And the issue is not simply cost; the Federal Circuit's exhaustion rules hinder innovation, as well. New products often result from novel ideas regarding combinations of existing components. Creating these new combinations, however, requires confidence that the patent rights underlying the components have been exhausted by the initial sale. For this reason, a recent study concluded that "deregulation of parallel imports"—that is, goods imported on the secondary market—"generates both an increase in consumer surplus in the innovative country and an *increase* in the world pace of innovation." Gene M. Grossman & Edwin L.C. Lai, *Parallel Imports and Price Controls*, 39 RAND J. Econ. 378, 380 (2008).

2. The negative impact of the Federal Circuit's exhaustion rules is also felt by retailers—large and small—who sell thousands of products, many with individually patented components. Not only will those retailers remain responsible for ensuring that the products they sell are authentic (*i.e.*, not counterfeit or pirated) but, like the manufacturers before them, they will also be pressured to determine and verify the patent rights associated with each component in those products. That investigation and verification process imposes significant costs on retailers; those costs are ultimately passed on to consumers.

Realistically, moreover, neither the national chain that imports billions of dollars of goods for resale each year, nor the small local shop that purchases its inventory from a middleman distributor, can always know the provenance of every

lawfully made good it sells—and particularly those first sold abroad and imported for sale in the United States. Especially where there is no visible patent notice on the goods, retailers have no reasonable way to ascertain whether anything about the goods is protected by patent. This is particularly true in cases in which a patented method or component is at best ancillary to the goods that the retailer is selling.

If patentees had the right to prevent the resale or importation of lawfully made goods, the retail industry would have less confidence to buy goods from independent exporters or importers. As noted earlier, to mitigate the risk of such uncertainly, retailers often try to shift liability to their sellers through contractual representations and indemnification provisions. They can also obtain insurance to protect against unknown or unintentional breaches of such warranties. But those protections, too, impose additional costs. The Federal Circuit's exhaustion rules therefore create precisely the burdens that have long concerned this Court. *See, e.g.*, *Kirtsaeng*, 133 S. Ct. at 1363 (the first-sale doctrine is meant to "free[ ] courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods").

3. The damage caused by the decision below is not limited to industry, however. It causes substantial harm and confusion for everyday consumers, as well. As noted above, in the modern supply chain, manufacturers sell components to product developers, who sell their products to retailers, and then ultimately to consumers. The component manufacturers' initial sale often takes

place abroad. Under the rule adopted by the decision below, the only way to protect the rights of downstream consumers is to force the initial component sales to take place in the United States—resulting in fewer goods offered at retail, in fewer retail outlets, and at higher prices.

Moreover, the decision below mandates a number of nonsensical outcomes, foremost among them that individual copies of patented goods—be it a Nikon camera purchased by a tourist on vacation in Japan or a Teva sandal purchased by a student studying abroad in Israel—cannot lawfully be brought home, resold, given away, *or even used* in the United States by the purchaser without committing patent infringement.

To be sure, it is often suggested—and was, indeed, argued by Respondent below (Lexmark Panel Br. 54)—that patentees will not actually bring suit to stop such *de minimis* acts of infringement. But as this Court observed in *Kirtsaeng*, "a copyright law that can work in practice only if unenforced is not a sound copyright law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely unenforced, would breed disrespect for copyright law itself." 133 S. Ct. at 1366. So too here.

Indeed, if anything, the problem is only more pronounced in the patent context. As Justice Ginsburg noted in dissent in *Kirtsaeng*, a number of copyright-specific defenses and exceptions—such as fair use, the so-called "suitcase exception," and specific exemptions for libraries—might have mitigated some of the practical concerns expressed

by the Court. 133 S. Ct. at 1388-89. Patent law, however, provides no such relief.

4. The concerns raised here are not new; they were discussed at length by the Court in *Kirtsaeng*. The Federal Circuit tried to dismiss that fact by asserting that this Court's treatment was "copyright-specific" and "to a large extent, though not entirely, tied to the distinct problems of museums, libraries, and booksellers." Pet. App. 75a. But the Court's opinion was not nearly so constrained. To the contrary, the Court *expressly* took account of the very concerns of both technology companies and retailers raised again here. *See Kirtsaeng*, 133 S. Ct. at 1365 (citing, *inter alia*, Brief for Retail Litigation Center, Inc., *et al.* as *Amici Curiae*).

The decision below likewise asserts that there is "no basis for predicting the extreme, lop-sided impacts" raised here. Pet. App. 60a. But that exact same claim was pressed—and rejected—in *Kirtsaeng*, as well. *See* 133 S. Ct. at 1366 ("Neither Wiley nor any of its many *amici* deny that a geographical interpretation could bring about these 'horribles'—at least in principle. Rather, Wiley essentially says that the list is artificially invented.").

In an attempt to distinguish the indistinguishable, the decision below thus asserts that patent law is simply different. Whereas pre-*Kirtsaeng* copyright precedent "was too fractured to give meaningful comfort that . . . practical problems . . . were unlikely to materialize" (Pet. App. 75a), the Federal Circuit claims, "*Mallinckdrodt* has been the governing case law since 1992" (*id.* at 60a), and *Jazz Photo* the "clear rule since 2001" (*id.* at 75a), "[a]nd yet we have been given no reliable demonstration of

widespread problems not being solved in the marketplace" (*id.* at 60a).

But the patent law is not nearly as settled, nor was the copyright law nearly as unsettled, as the Federal Circuit claims. To the contrary, district courts have repeatedly raised concerns about the viability of the Federal Circuit's patent exhaustion precedents. *See, e.g.*, *LG Elecs., Inc.* v. *Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009). As the dissent noted, so too have commentators. *See* Pet. App. 114a (citing 12 Phillip A. Areeda & Herbert Hovenkamp, Antitrust Law ¶ 2044, at 300 & 301 n.15 (3d ed. 2012)). And, as the Petition describes, the United States has consistently asserted that both *Mallinckdrodt* and *Jazz Photo* were incorrectly decided. *See* Pet. 18-21, 32 (describing the United States's position).

In contrast, before *Omega S.A.* v. *Costco Wholesale Corporation*, No. 04-05443, 2007 WL 7029734 (C.D. Cal. Feb. 6, 2007), *rev'd*, 541 F.3d 982 (9th Cir. 2008), *aff'd by a divided Court*, 562 U.S. 40 (2010)—the precursor to *Kirtsaeng*—a geographic interpretation of copyright exhaustion had been the universal rule in the federal courts for nearly thirty years. See *CBS, Inc.* v. *Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984). Commentators uniformly asserted that view was correct. *See, e.g.*, 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[B][6](b), at 8-178.4 (rev. ed. 2009). And the United States thrice defended it in the Supreme Court (in *Quality King*, in *Costco*, and again in *Kirtsaeng*). Indeed, prior to 2010, only a single court had ever even called the prevailing, geographic view

of copyright exhaustion into question at all (and in a footnote, no less). *See Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 & n.1 (3d Cir. 1988).

Against that backdrop, there is simply not "considerably more reason to discount predictions" (Pet. App. 75a) of what might materialize if the decision below is left intact than there once was in the copyright context. And as the Court noted in *Kirtsaeng*, "the fact that harm has proved limited so far may simply reflect the reluctance of copyright holders so far to assert geographically based resale rights. They may decide differently if the law is clarified in their favor." 133 S. Ct. at 1366. So too here.

* * *

At bottom, there is simply no rational reason to presume that Congress intends for materially different—indeed, almost diametrically opposed—exhaustion regimes to govern copyrights and patents. And there is significant harm in presuming otherwise. The same products often include both patented and copyrighted elements; indeed, *Kirtsaeng* itself acknowledged the use of copyrights in "automobiles, microwaves, calculators, mobile phones, tablets, and personal computers"—products plainly subject to patent rights. 133 S. Ct. at 1365. In practice, parties routinely assert copyright and patent interests in the same product. See, *e.g.*, *Amini Innovation Corp.* v. *Anthony California, Inc.*, 439 F.3d 1365 (Fed. Cir. 2006); *Gemmy Indus. Corp.* v. *Chrisha Creations Ltd.*, 452 F.3d 1353 (Fed. Cir. 2006); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000). Disparate exhaustion rules yield bizarre and intolerable results, where

sales abroad (or at home, subject to restrictions) exhaust some U.S. rights but not others. Such a regime would simply encourage further gamesmanship in the use of intellectual property rights in order to restrict secondary markets. This Court should not abide such a result.

II. THE DECISION BELOW MISINTERPRETS THIS COURT'S PRECEDENTS AND IS ERRONEOUS

This Court's precedents make clear that the first-sale doctrine has two requirements: (1) there must be a sale of a patented article, and (2) that sale must have been authorized by the patentee. If those conditions are met, the patentee "can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights." *United States* v. *General Electric Co.*, 272 U.S. 476, 489 (1926).

Although that principle has been "well settled" for more than a century, *General Electric*, 272 U.S. at 489, the Federal Circuit has grafted two far-reaching exceptions onto the first-sale doctrine. According to the decision below, a patentee can circumvent the first-sale doctrine domestically—and thus restrict purchasers' subsequent use or sale of a patented article—simply by imposing "conditions" when it sells the article. And foreign sales of a patented article, even when authorized by the patentee, are immune from the first-sale doctrine altogether. The exceptions created by the Federal Circuit are contrary to this Court's precedents and misinterpret the text and purpose of the Patent Act.

1. The patent system "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989). This Court has "uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 251 (1942). "[O]nce that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *Ibid.* The first-sale doctrine therefore reflects the fact that the patent law gives patentees "but one royalty"—and no more. *Keeler*, 157 U.S. at 663; *see Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013).

The *Mallinckrodt* doctrine runs counter to that bedrock principle. As this Court has recently reiterated, the "longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates *all patent rights* to that item," including the right to impose "postsale restrictions on the use of a patented article." *Quanta*, 553 U.S. at 625 (emphasis added). But that is just what the decision below permits: It allows patentees to impose restrictions on the use or sale of a patented article *after* an authorized sale of that article—and thus after the patentee has already "received his consideration." *Adams* v. *Burke*, 84 U.S. 453, 456 (1873).

The decision below presumes that, as owners of a property right, patentees must be free to impose conditions on the subsequent use or sale of that

property. The decision below also suggests that patentees need a mechanism to segment markets for their products, domestically or internationally, in order to account for real-world differences among markets and to prevent arbitrage. *See* Pet. App. 78a-79a. That may be true, but if so, those rights are not a function of the *patent law*, enforceable through infringement actions. Rather, this Court has made clear that such restrictions on post-sale use are the function of—and are only enforceable through—*contract law*:

> Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.

Keeler, 157 U.S. at 666; see *Quanta*, 553 U.S. at 637 n.7.

What was "obvious" to this Court in 1895 is no longer obvious to the Federal Circuit in 2016. By allowing patentees to use the patent laws to enforce contractual limitations on post-sale uses, the decision below impermissibly extends the scope of the patent monopoly and undermines the bargain that lies at the very core of federal patent law.

2. The decision below nevertheless contends that the *Mallinckrodt* conditional-sale doctrine is compelled by the Patent Act, which confers the "'right to exclude,' which 'may be waived in whole or part.'" Pet. App. 27a (quoting *Mallinckrodt*, 976 F.2d

at 703). So, the reasoning goes, because a patentee can exclude *all* uses or sales of a patented article, it can impose *some* restrictions on the use or sale of that article, even after an authorized sale.

But this Court has already rejected that greater-includes-the-lesser argument—*i.e.*, the notion that, "since the patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it." *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 514 (1917). And it did so on the ground that the argument conflates "the rights which are given to the inventor by the patent law," and those "which he may create for himself by private contract." *Ibid.* That is precisely the mistake made by the decision below.

The decision below also places great weight on the fact that the Patent Act confers "separate rights to exclude others from making, using, selling, etc." Pet. App. 58a. According to the court of appeals, that unique aspect of patent law means that the first-sale doctrine (at least in the context of patent law) should not be subject to the longstanding common-law rule that authorized purchasers of goods are free to dispose of those goods however they wish. Pet. App. 56a-59a.

But this Court has recognized that very point in *Adams*—that the "right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee." *Adams*, 84 U.S. at 456. It nevertheless held that that fact does *not* give the patentee the right to impose constrictions on post-sale uses or

sales: Once a patentee sells a patented article, this Court explained, he "parts with the right to restrict that use." *Ibid.* The fact that the patent law grants those rights "separately," Pet. App. 57a, does nothing to alter that rule.

3. The majority decision below relies on a line of cases from this Court holding that patentees can place conditions on the conduct of *licensees*. According to the decision, "there is no sound reason, and no Supreme Court precedent," requiring a distinction between conditions imposed on purchasers and conditions imposed on licensees. Pet. App. 26a.

Not so. The "distinction is a plain one" that has long been recognized by this Court. *Bloomer* v. *McQuewan*, 55 U.S. 539, 549 (1852). Thus, in *General Electric*, the Court reaffirmed that, where a patentee makes an article "and *sells* it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase." 272 U.S. at 489 (emphasis added). "But the question is a different one which arises when we consider what a patentee who grants a *license* to one to make and vend the patented article may do in limiting the *licensee* in the exercise of the right to sell." *Id.* at 489-490 (emphasis added).

This Court's longstanding distinction between sales and licenses is an eminently reasonable one. After all, the first sale doctrine is just that: it applies only after the *sale* of a "particular article." *Bowman*, 133 S. Ct. at 1766 (internal quotation marks omitted). When a patentee himself manufactures and sells an article, there is of course a sale, and that sale is, by definition, authorized. It therefore "puts

the article beyond the reach of the monopoly which that patent confers." *Univis*, 316 U.S. at 252; *see Bloomer*, 55 U.S. at 549 (after an authorized sale, a patented article "is no longer within the limits of the monopoly").

When a patentee licenses another entity to make and then sell an article, however, there is no sale (yet). The patented article therefore remains within the scope of the patent monopoly—and the patentee is therefore free to impose conditions on the licensee's use or sale of the item covered by the patent. In that situation, the first-sale doctrine is triggered only when the licensee—who stands in the shoes of the patentee—first sells the patented item with the authorization of the patentee. *Cf. Kirtsaeng*, 133 S. Ct. at 1361 (noting that the lessee of a copy will not enjoy the benefit of the copyright first-sale doctrine, but that the purchaser of a copy will). This Court's precedents regarding licenses therefore provide no basis to jettison its long line of decisions holding that a patentee who sells a patented article exhausts his right to control the subsequent use or sale of that article.

4. In *Kirtsaeng*, this Court held that the first-sale doctrine "applies to copies of a copyrighted work lawfully made abroad." 133 S. Ct. at 1355-56. In reaching that conclusion, this Court observed that the doctrine, as a general matter, had an "impeccable historic pedigree"—namely, the common law's longstanding disapproval of restraints on the alienation of goods. *Id.* at 1363 (citing Lord Coke). According to the decision below, however, *Kirtsaeng* is simply irrelevant here because "a conclusion about copyright law does not automatically carry over to

patent law." Pet. App. 69a (citing *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 345-46 (1908)). But that truism adds nothing to the analysis. The question isn't whether conclusions about copyright law *always* compel similar conclusions about patent law. Rather, the question is whether there is any reason to treat copyright law and patent law differently *in a specific context*. And the opinion below provides no valid reason why patent law should diverge from copyright law with respect to international exhaustion.

The court of appeals makes much of the fact that the Copyright Act contains a statutory first-sale doctrine, while the Patent Law does not. But as Petitioner explains (at 24-26), that distinction cuts exactly the other way. In *Kirtsaeng*, this Court determined whether the Copyright Act's first-sale provision modified the doctrine that *already* existed at common law. Here however, there is no statute that expressly delineates the scope of the first-sale doctrine in the patent-law context. Thus, the common-law doctrines relied on by this Court in *Kirtsaeng* apply with even greater force here.

The opinion below also attempts to distinguish patent law from copyright law on the ground that the Patent Act—unlike the Copyright Act—confers "broad rights to control sale and use," and grants those various rights "separately as to making, selling, using, etc." Pet. App. 57a; *id.* at 58a. But that is not a distinction at all (much less one with a difference). After all, the Copyright Act *also* grants separate "exclusive rights," including the right to "reproduce" a copyrighted work; "prepare derivative works"; "distribute copies" of a copyrighted work by

sale, rental, or lease; and "perform" or "display" copyrighted works publicly. 17 U.S.C. § 106. Under the majority opinion's own framework, then, the same exhaustion rule should apply to authorized sales in the copyright and patent contexts.

In any event, this Court has already made clear that copyright law and patent law should be treated similarly *with respect to the very issue presented here*—exhaustion based on the sale of a product. In *Bauer & Cie.* v. *O'Donnell*, 229 U.S. 1 (1913), the Court addressed whether a patentee may limit the price at which future sales of a patented article may be made (after an authorized sale of that article)—a question addressed in the copyright context in *Bobbs-Merrill*. This Court acknowledged that the copyright statute differs from the patent statute, but explained that there nevertheless "is a strong similarity between and identity of purpose in the two statutes"—specifically, that both statutes provide the exclusive right to "vend" articles (or "sell" under the current statutes). Thus, the Court explained, "[t]he sale of a patented article is not essentially different from the sale of a book." *Id.* at 13.

So too here: The decision below provides no valid reason why the effect of a foreign sale of a patented article (say, a Nikon camera) should be treated differently, for purposes of exhaustion, from the foreign sale of a novel by Herzog. As long as the foreign sale was authorized, it exhausts the patentee's right to restrict the purchaser's use or sale of the article. In other words, the same two-step inquiry that applies in the domestic exhaustion context also applies in the international exhaustion context: Was there a sale of a patented article, and

was it authorized? If so, the patented article "passes to the hands of the purchaser" and is "no longer within the limits of the monopoly." *Bloomer*, 55 U.S. at 549.

CONCLUSION

The petition for a Writ of Certiorari should be granted, and the decision of the Federal Circuit reversed.

Respectfully submitted.

ROY T. ENGLERT, JR.
ARIEL N. LAVINBUK
Counsel of Record
DANIEL N. LERMAN
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, NW
Suite 411L
Washington, D.C. 20006
(202) 775-4500
alavinbuk@robbinsrussell.com

April 2016

AND
BRIEFS

No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF INTEL CORP. AND VIZIO INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

Matthew R. Hulse
INTEL CORPORATION
2200 Mission College Blvd.
Santa Clara, CA 95054

Avraham Schwartz
VIZIO, INC.
39 Tesla
Irvine, CA 92618

Mark S. Davies
Counsel of Record
Thomas M. Bondy
Logan Q. Dwyer
ORRICK, HERRINGTON & SUTCLIFFE LLP
1152 15th Street, N.W.
Washington, DC 20005
(202) 339-8400
mark.davies@orrick.com

Richard F. Martinelli
Rachel Wainer Apter
Elizabeth R. Moulton
ORRICK, HERRINGTON & SUTCLIFFE LLP
51 West 52nd Street
New York, NY 10019

Counsel for Amici Curiae

Library of Congress

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INTEREST OF *AMICI*

Intel Corp. is a world-renowned designer, manufacturer, and seller of microprocessors, communication chips, flash memory products, solid-state drives, and other high technology products and services.[1] VIZIO, Inc. is a leading U.S. consumer electronics company whose products include televisions, displays, and audio equipment. Computers, visual hardware, and other high technology products typically contain numerous components. These components are often designed in one country, manufactured in another, tested and assembled with other components in a third, and then exported as subassemblies or finished products worldwide. Many of these components are protected by U.S. patents.

Amici participate in and rely on a well operating global marketplace. Intel owns and operates manufacturing facilities in the United States, Ireland, Israel, and China. Its multitiered supply chain comprises more than 16,000 suppliers in over 100 countries. Eighty percent of Intel's products are first sold abroad, primarily to original equipment manufacturers and original design manufacturers. So too, VIZIO relies on foreign manufacturers to procure components and assemble VIZIO's complex products. And when buying components, *amici* must be sure

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[1] The parties have consented to the filing of this *amicus* brief. No counsel for a party authored the brief in whole or in part. No party, counsel for a party, or any person other than *amicus* and its counsel made a monetary contribution intended to fund the preparation or submission of this brief.

that they are securing freedom to operate for both themselves and their customers.

At the same time, *amici* rely on carefully assembled patent portfolios to protect their many innovations. "[E]ach Intel microprocessor and chipset practices thousands of individual patents." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 635 (2008). Between 2007 and 2012, the U.S. Patent and Trademark Office granted Intel 11,328 patents. VIZIO, a much newer company, already owns over 140 patents. High tech companies are consistently among those holding the most U.S. patents. *See, e.g.*, Intellectual Property Owners Association, *2014 Top 300 Patent Owners*, https://www.ipo.org/index.php/publications/top-300-patent-owners/.

Amici thus have a unique perspective on patent law doctrines. As the owners of a large and diverse array of patents, *amici* are acutely sensitive to the important role intellectual property plays in encouraging creativity. And as sellers of innovative products that incorporate hundreds or even thousands of patented technologies, *amici* (and the purchasers of their products) are also potential defendants in patent infringement suits.

With this balanced perspective in mind, *amici* urge the Court to grant review on the two questions presented. *Amici* fully support the Court's patent exhaustion doctrine. The doctrine holds that one authorized sale of a patented good exhausts all of the patent holder's patent rights in that good. The Federal Circuit's en banc decision below announces two unwarranted exceptions to this sound rule. Both

exceptions threaten to cause havoc to the high technology sector and are without legal basis. Further review is warranted.

SUMMARY OF ARGUMENT

I. The Court has repeatedly held that U.S. patent rights are deemed exhausted after the first authorized sale of a patented good. Under this doctrine, once a patent holder chooses to part with title to a patented good, the good is beyond the limits of the patent law. After the authorized sale, the purchaser of the good is free to use or sell it however she chooses.

II. The Court should review the en banc Federal Circuit's decision to reaffirm the rule announced in *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001). Under the Federal Circuit's ruling, a foreign sale of a patented article does *not* exhaust the patentee's U.S. patent rights. That decision poses a serious threat to the global high technology industry. High technology products are often designed in one country, manufactured in another, assembled into finished products in a third, and then shipped around the world. These high technology products include components covered by thousands of different patents. Under the decision below, a U.S. patent owner could sell its technology for use in such a component, and then turn around and sue the end-user for infringement when the finished product is sold in the United States. That provides all the wrong incentives, and is not the law. The decision below also conflicts with more than a century of precedent, which focuses only on *whether*

there has been a sale authorized by the U.S. patent owner, not *where* such a sale occurred. *Boesch v. Graff*, 133 U.S. 697 (1890), is not to the contrary.

III. The Court should also review the Federal Circuit's decision to reaffirm *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). There, the Federal Circuit held that post-sale restrictions can preclude the operation of patent exhaustion. The basis of the Federal Circuit's decision in *Mallinckrodt*, and the majority's decision below, was the court's belief that a contrary holding would create a "distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a. That is incorrect. The rule is the same for non-practicing entities and practicing entities alike: A first authorized sale of a patented product exhausts the patent owner's patent rights, whether the sale is made by the patent holder itself or its licensee. *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938), created no contrary rule for licensees. The majority's decision could allow patent holders to end secondary markets in patented goods or prohibit purchasers from reusing patented goods. This Court's review is urgently needed.

ARGUMENT

I. The Court Has Repeatedly Held That An Authorized Sale Exhausts All Patent Rights.

The Court has long recognized that once a patent holder chooses through an authorized sale to part

with title to an article embodying the patented invention, the patented article is beyond the confines of the patent law, and the purchaser of the article is free to use or sell it however she chooses. The premise of the exhaustion doctrine is the common sense notion that a patentee should not recover multiple rents for the same invention. After a patent holder "has received in the purchase price every benefit of that monopoly which the patent law secures," the patent holder is not entitled to further compensation for the invention. *United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942).

In 1852, this Court explained that if an inventor chooses to "lawfully sell" a patented machine, "when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852). The Court has repeatedly reaffirmed this rule. *See, e.g., Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 661 (1895). A patent holder's "monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Univis*, 316 U.S. at 250.

The one exception was *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912). *A.B. Dick. Co.* held that reasonable post-sale restrictions that were "not inherently violative of some substantive law" were "valid and enforceable" through the patent law, as long as the purchaser had notice of the restriction when she

purchased the patented article. *Id.* at 26, 31. But *A.B. Dick. Co.* "was short lived"—it was "explicitly overruled" only five years later in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917). *See Quanta*, 553 U.S. at 626.

This Court has been crystal clear, repeatedly, since. "[O]ne who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied." *Boston Store v. Am. Gramophone Co.*, 246 U.S. 8, 25 (1918). Similarly, "[i]t is well settled ... that where a patentee makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights." *United States v. Gen. Elec. Co.*, 272 U.S. 476, 489 (1926). In sum, "[u]nder the doctrine [of patent exhaustion], 'the initial authorized sale of a patented item terminates all patent rights to that item.'" *Bowman v. Monsanto*, 133 S. Ct. 1761, 1766 (2013) (quoting *Quanta*, 553 U.S. at 625).

The patent exhaustion doctrine is derived from the common-law "first sale" rule. The Court recently examined the rule in *Kirtsaeng v. John Wiley & Sons, Inc.*, and emphasized its "impeccable historic pedigree." 133 S. Ct. 1351, 1363 (2013).[2] As Lord Coke

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[2] In *Kirtsaeng*, the Court relied on the common law to support a "non-geographical reading" of 17 U.S.C. § 109(a) of the Copyright Act. The Act authorizes the purchaser "of a particular

explained in the early 17th century, the common law "refus[ed] to permit restraints on the alienation of chattels." *Id.* at 1363. Thus, if a man sold his horse upon the condition that the buyer should not be permitted to re-sell it, "the [condition] is voi[d]," because the man sold his entire interest in the horse, and no longer had any power over it. *Id.* (quoting 1 E. Coke, Institutes of the Laws of England § 360, p. 223 (1628)). As this Court correctly noted in 1917, "[attempting] to place restraints upon [a patented article's] further alienation . . . ha[s] been hateful to the law from Lord Coke's day to ours." *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500-01 (1917).

Because the Patent Act "is silent" on exhaustion, "it did not alter" this "common-law rule." *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2254 (2011) (Thomas, J., concurring in judgment); *see also Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952) ("Statutes which invade the common law . . . are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident.").

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copy ... lawfully made under this title" to sell or dispose of it "without the authority of the copyright owner." 133 S. Ct. at 1355. Relying on the common-law first sale doctrine, the Court held that "lawfully made under this title" included copyrighted works lawfully made and sold abroad, even under restrictions precluding resale in the United States. *Id.* at 1355-56.

II. The Court Should Review The Federal Circuit's Ruling That An Authorized Foreign Sale Does Not Exhaust U.S. Patent Rights.

The decision below encourages patentees to seek two payments for one invention, contradicting over a century of jurisprudence. The Federal Circuit en banc majority, endorsing the 2001 decision in *Jazz Photo*, held that a foreign sale of a patented article does not exhaust the patentee's U.S. patent rights. Pet. App. 81-82a, 90-92a. If this ruling is allowed to stand, a patentee could sell its patented article for use in a high tech component, and then turn around and sue for infringement when the finished product arrives in the United States.

A. The Federal Circuit's endorsement of *Jazz Photo* presents a particular threat to the technology industry.

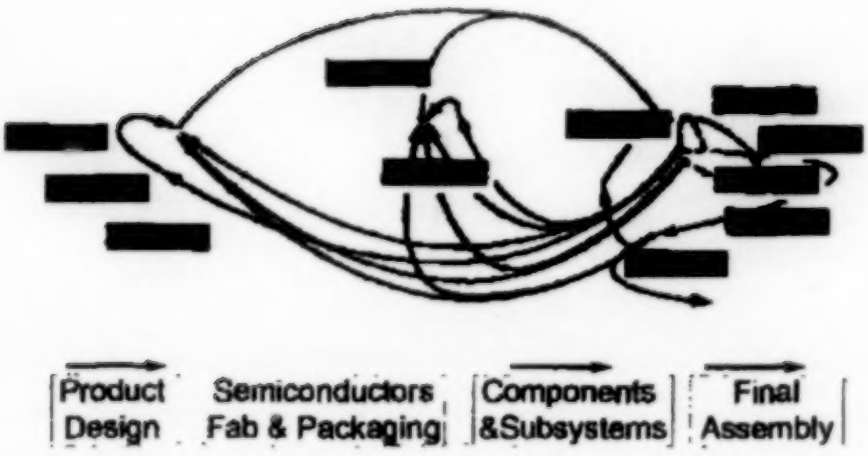
The decision below will have a harmful impact on the global high technology industry, will further encourage patent assertion entities ("PAEs") to seek multiple royalties, and will lead to unwarranted suits against customers. Responding to this argument below, the majority believed there was "no basis for predicting [these] extreme, lop-sided impacts." Pet. App. 60a. But the basis for the anticipated adverse consequences here is even stronger than the grounds the Court relied upon in *Kirtsaeng*. 133 S. Ct. at 1363-65; Pet. App. 131a.

1. The Federal Circuit's holding threatens to have a dramatic impact on the global high tech industry.

The high technology "patent landscape involves products containing a multitude of components, each covered by numerous patents." U.S. Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*, at 55 ("The Evolving IP Marketplace") (March 2011). Not only are many high tech products covered by "thickets" of patents, the number of components and the complexity of the supply chain needed to assemble a finished consumer electronic are astounding. *Id.* at 56. A generic smartphone contains hundreds of different parts made around the world, covered by an estimated 250,000 patents. *See* RPX Corp., Registration Statement (Form S-1), at 59 (Sept. 2, 2011), available at http://tinyurl.com/gnlzbr9; Ian Barker, *The Global Supply Chain Behind the iPhone 6*, betanews (Sept. 23, 2014), http://tinyurl.com/jrsxpxq.

Here is an image of a typical international supply chain for a high technology product:[3]

[3] *See* Mark Zetter, *Economic Drivers, Challenges Creating Regional Electronics Industry*, Venture Outsource, http://tinyurl.com/zokrprg (last visited Apr. 20, 2016).



As this supply chain shows, a product may be designed in the United States, assembled in Singapore from parts made in Costa Rica, Israel, and China, and then shipped to the United States for retail sales. High tech manufacturers thus face an enormous challenge in "trying to identify and clear patent rights due to the large number of patents that cover most IT products," Evolving IP Marketplace at 55, in the international supply chain.

The decision below threatens the expectations of all parties involved in the high tech global supply chain. *Amici* rely on the protection from litigation that should arise from purchasing components from authorized sellers and from entering into worldwide patent licenses. But under the majority's decision, *amici* and their customers can no longer be sure that those protections follow products through to their ultimate destination. Under the decision below, to ascertain patent rights *amici* must review the patent licenses of their entire supply chain to confirm that the licenses explicitly state that their authorized foreign purchases exhaust the U.S. patents. Pet. App.

9a. Putting aside the multitude of agreements that are present in a modern global supply chain, review of suppliers' agreements to confirm foreign exhaustion is effectively impossible because those agreements are typically confidential. *See, e.g.*, John M. Golden, *Principles for Patent Remedies*, 88 Tex. L. Rev. 505, 550 (2010) ("[T]he terms of patent-licensing agreements ... are generally confidential."). The majority's further assertion that customers could rely on implied license, Pet. App. 98a, is even more impractical. The customer would need to review details of the supplier's license (often confidential) to find out if it expressly disclaims an implied license, and would also need to analyze whether it could satisfy the legal criteria of the implied license defense. Ambiguity is inevitable, and that, as practical matter, means a real risk of patent litigation.

2. An additional factor still further magnifies the impact the decision below will have on the high technology community: PAEs. The majority believed that its ruling would not encourage opportunistic suits by PAEs because PAEs "have neither made nor authorized the sale of patent-covered articles." Pet. App. 98a. The majority seriously underestimates the documented resourcefulness of PAEs.

This Court has already taken note of the "industry" that "has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring). Ten years later, there is a growing trend of PAEs acquiring thousands of patents from operating companies, many of which

were previously licensed worldwide to component manufacturers like *amici*. *See* Mark S. Popofsky and Michael D. Laufert, *Patent Assertion Entities and Antitrust: Operating Company Patent Transfers*, The Antitrust Source, at 1, 3 (American Bar Ass'n, 2013).

The PAEs have now begun to target the downstream purchasers of licensed devices. *See, e.g.*, *British Telecomms. PLC v. Coxcom, Inc.*, 9 F. Supp. 3d 423, 434 (D. Del. 2014) (asserting patents licensed to Intel, Cisco, and others against downstream purchaser), vacated following settlement, 2014 WL 1364853 (D. Del. Mar. 7, 2014); *SanDisk Corp. v. Round Rock Research LLC*, No. 11-CV-5243, 2014 WL 2700583 (N.D. Cal. June 13, 2014) (targeting SanDisk, a downstream purchaser of semiconductor memory devices that were subject to worldwide license); *Multimedia Patent Trust v. Apple Inc.*, No. 10-CV-2618, 2012 WL 6863471 (S.D. Cal. Nov. 9, 2012) (relying on *Jazz Photo* to assert patent infringement against customer of a supplier with a worldwide patent license). Moreover, once the patented component has been incorporated into the design of a consumer product, the manufacturer may be unable to replace that component without completely redesigning the entire product. The PAE can therefore extract a higher payment based not on the value of the patented invention but on the cost of redesigning the entire finished product. The Evolving IP Marketplace at 14 ("ex post licensing to manufacturers that sell products developed or obtained independently of the patentee can distort competition in technology markets and deter innovation").

The Federal Circuit en banc majority's endorsement of *Jazz Photo* is good news for PAEs because global manufacturers will find it nearly impossible to determine that their myriad components are authorized for U.S. sale.

3. Just as this Court warned in *Kirtsaeng*, the decision below also invites accidental infringement by consumers and companies. 133 S. Ct. at 1364-67 (giving examples of possible inadvertent copyright infringement by libraries, used book stores, museums, and art dealers). As in *Kirtsaeng*, a consumer who purchases a camera, a new pair of tennis shoes,[4] or even a package of diapers[5] while on a trip abroad could find herself potentially liable for patent infringement upon her return to the United States. At least in *Kirtsaeng*, the possible copyright suits against consumers were hypothetical, 133 S. Ct. at 1366. Not so in the patent context, where patent infringement suits against consumers have become commonplace. *See, e.g., Vermont v. MPHJ Tech. Investments, LLC*, 803 F.3d 635, 639 (Fed. Cir. 2015) (noting patentee's practice of sending demand letters to small businesses to extract licensing fees); Brian J. Love & James C. Yoon, *Expanding Patent Law's*

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[4] The Patent Office has issued 550 patents in classification 36/114 ("Athletic shoe or attachment therefor"), USPTO Patent Full-Text and Image Database, http://tinyurl.com/j63ng3n (last visited April 20, 2016).

[5] The Patent Office has issued 1,114 patents in classification 604/358 ("Absorbent pad for external or internal application and supports therefor (*e.g.*, catamenial devices, diapers, etc.)"), USPTO Patent Full-Text and Image Database, http://tinyurl.com/orwy26y (last visited April 20, 2016).

Customer Suit Exception, 93 B.U. L. Rev. 1605, 1609-10 (2013) (describing "a class of patentees that overwhelmingly acquire old, extremely weak patents and assert them against the numerous, unsophisticated purchasers (rather than manufacturers) of allegedly infringing products in suits that typically settle for less than defendants' anticipated litigation costs.").

B. The Federal Circuit's endorsement of *Jazz Photo* conflicts with Supreme Court precedent, the common law, and the international patent system.

Jazz Photo conflicts with the common-law first sale doctrine. As earlier noted, once a patent holder chooses to part with title through an authorized sale, the good is beyond the limits of patent law, and the purchaser is free to use or sell it however she chooses. *Jazz Photo* is also unsupported by precedent or the international patent law regime.

1. The majority reaffirmed *Jazz Photo*, which in turn purported to rely on *Boesch v. Graff*, 133 U.S. 697 (1890). According to the majority, *Boesch* held that a foreign sale of a patented article *does not* exhaust the patentee's rights under U.S. patent law. Pet. App. 81-82a. The Federal Circuit's understanding of *Boesch* is fundamentally flawed and inconsistent with the case law both before and after *Boesch*.

In addressing the scope of patent exhaustion, courts have drawn no distinction based on *where* a sale occurred; they have asked only *whether* there was a sale authorized by the U.S. patent owner. In *Betts*

v. Willmott, the first case to apply Lord Coke to patent law, Lord Hatherley held that "inasmuch as [the seller] has the right of vending the goods in *France* or *Belgium* or *England*, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them *wherever the purchaser pleases*." [1871] 6 L.R. 239, 245 (Ch. App.) (Eng.) (emphasis added). Similarly, in *Holiday v. Mattheson*, 24 F. 185, 186 (C.C.S.D.N.Y. 1885), the court held that the purchaser "acquire[s] the right of unrestricted ownership in the article he buys as against the vendor" even if the article is purchased abroad.

As in *Holiday*, the determinative issue in *Boesch* was whether the foreign sale was authorized by the U.S. patent holder, not where the authorized sale took place. In *Boesch*, the patentee patented an improvement in lamp burners, both in the United States and in Germany. 133 U.S. at 698-99. Defendants purchased the patented burners in Germany from a person who did not have a license to sell them under the German patent (or U.S. patent), but whose sale was nonetheless authorized under German law because he had already made preparations to manufacture the burners before the application for the German patent had been filed. *Id.* at 701. This Court held the patent not exhausted because the foreign seller *had no authority from the U.S. patentee*, and thus, "purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees." *Id.* at 703.

Courts have consistently recognized that the crucial fact in *Boesch* was that there was no sale

authorized by the U.S. patent holder. In *Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp.*, for instance, the patent owner manufactured and sold airplanes to the British government in Canada. 266 F. 71, 72-74 (2d Cir. 1920). Defendant purchased the airplanes from the British government in Canada and then sold them in the United States. *Id.* at 74. Yet the court held "the full right to use and sell the article in any and every country" had properly passed to the purchaser, reasoning that "[a]s the plaintiff has already been paid for these aeroplanes the full price it asked, it is no longer concerned about ... whether the article is kept in Canada, or in Great Britain, or in the United States." *Id.* at 78-79.

Courts continued to enforce international exhaustion up until *Jazz Photo*. For example, in *Kabushiki Kaisha Hattori Seiko v. Refac Tech. Dev. Corp.*, the court held that, after a foreign sale by an authorized licensee, "the holder of United States patent rights is barred from preventing resale in the United States or from collecting a royalty when the foreign customer resells the article here." 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (citing *Holiday*, 24 F. 185); *see also Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 937-38 (D.N.J. 1983) (prohibiting U.S. patentee from restricting importation after it authorized a foreign sale). Based on its misreading of *Boesch*, the Federal Circuit put an end to this line of cases. Only this Court can correct the ruling.

2. The Federal Circuit's decision also puts U.S. law at odds with the international community, which

continues to move toward international exhaustion.[6] International exhaustion applies between member nations of the European Union. *See* Daniel Erlikhman, *Jazz Photo and the Doctrine of Patent Exhaustion: Implications to TRIPS and International Harmonization of Patent Protection*, 25 Hastings Comm. & Ent. L.J. 307, 328 (2003) (noting the European Court of Justice's "aggressive[]" application of exhaustion between EU members). The Supreme Court of Japan held that overseas sales exhaust domestic Japanese patents in 1997. *Id.* at 325-27. And many countries, including China and India, have already implemented broad international exhaustion by statute. WIPO Committee on Development and Intellectual Property (CDIP), *Patent Related Flexibilities in the Multilateral Legal Framework and Their Legislative Implementation at the National and Regional Levels*, CDIP/5/4, ¶ 58 (Mar. 1, 2010), available at http://tinyurl.com/2fgqm96. The Federal Circuit's rejection of international patent exhaustion is at odds with this emerging international consensus.

In any event, the Federal Circuit's concern that international exhaustion would ignore the "especially territorial" nature of U.S. patent law is misplaced. Pet. App. 86a. The fact that "[o]ur patent system makes no claim to extraterritorial effect" means that U.S. patents do not provide inventors with "*protection* in markets other than those of this country."

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[6] The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) lets each member nation choose whether to adopt international exhaustion. *See* Agreement on Trade-Related Aspects of Intellectual Property Rights art. 6, Apr. 15, 1994, 33 I.L.M. 1197.

Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 523, 531 (1972) (emphasis added). It does not mean that U.S. patents cannot be *exhausted* by international sales. Because international exhaustion does not expand the U.S. patent system's protections outside of the United States, it is wholly consistent with the territorial scope of our patent law. *Cf. Quanta*, 553 U.S. at 632, n.6 (noting that a patent can be practiced, but not infringed, outside the United States).

III. The Court Should Review The Federal Circuit's Ruling That Post-Sale Restrictions May Be Enforced Through Patent Law.

The Court should also review the Federal Circuit's decision to reaffirm *Mallinckrodt*. The en banc majority held that "[a] sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale" does not exhaust the patentee's patent rights, and instead allows the patentee to enforce the post-sale restriction through patent law. The majority believed its holding was necessary to avoid creating a "distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a. But this concern reflects a basic misunderstanding of this Court's cases. The applicable rule is the same for non-practicing entities and practicing entities alike: The first authorized sale of a patented article exhausts the patent owner's patent rights. The Federal Circuit's contrary conclusion upends settled expectations and could

allow patent holders to end secondary markets in patented goods.

A. The Federal Circuit's endorsement of *Mallinckrodt* would allow patent holders to end secondary markets in patented goods.

The en banc majority found "no proof of a significant problem" arising from "single-use/no-resale restriction[s]." Pet. App. 60a. Instead, the majority believed that no-resale restrictions "can have benefits." *Id.* Customers can pay a lower price in exchange for a no-resale limitation. *Id.* Companies like Lexmark can ensure that "lower quality" replacement cartridges do not harm their reputations, and medical suppliers like Mallinckrodt can avoid the "medical[] harm[]" that could come from reuse of medical devices. *Id.* at 61a.

The problem with the majority's holding is that it is not limited to situations in which a single-use or no-resale limitation appears to make sense to a court. Under the decision below, any patented good could be labeled for "single use only" and any purchaser could be sued for patent infringement when he reuses or resells it. Pet. App. 26a. Indeed, under the Federal Circuit's holding, not only could a patent holder shut down the secondary market in used goods by prohibiting reuse or resale—think used cars—but it also could force customers to repurchase the patented article again and again, rather than reusing it.

An example illustrates the point. The PEZ dispenser was first patented in the United States in

1952. *See* U.S. Pat. No. 2,620,061. Since then, PEZ has marked its dispensers with seven other utility patents on dispenser designs. Under the majority's rule, PEZ could choose to sell its dispensers as "single use only," and sue anyone who reloaded them with candies for patent infringement. PEZ could also use patent law to stop collectors from trading in or reselling dispensers. This is the precise opposite of the long established rule: after an authorized sale, the purchaser of the patented article is free to use it as she wishes. *See* Part I, *supra*.

B. The Federal Circuit's endorsement of *Mallinckrodt* is wrong because exhaustion applies identically to practicing-entity patentees and non-practicing-entity patentees.

For 160 years, this Court has held that once a patent holder chooses to part with title through an authorized sale, the patented good is beyond the limits of patent law, and the purchaser is free to use or sell it however she wishes. *See* Part I, *supra*. The majority dispensed with this Court's long established precedent on the theory that it creates a "distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a. The majority was wrong—there is no distinction in this Court's exhaustion doctrine between the patent rights of practicing-entity patentees and non-practicing-entity patentees.

According to the majority, there was "no basis in the policy of the patent statute," and "[n]o Supreme Court decision," that required it to "draw a sharp line between practicing-entity patentees (those who themselves make and sell the articles at issue) and non-practicing-entity patentees (those who do not)," or to give non-practicing entities "greater power to maintain their patent rights than practicing entities." Pet. App. 45a, 49a; *see also, e.g.*, Pet. App. 30a, 32a, 34a, 37a (discussing purported patentee-sale/licensee-sale distinction). Exactly so: the exhaustion doctrine applies to all. Yet, somehow, the majority concluded the opposite.

The foundation of the majority's error was its mistaken belief that had "Lexmark ... granted another firm a nonexclusive license to make and sell Return Program cartridges," rather than selling them with post-sale restrictions itself, "[i]t is undisputed and clear under ... the 1938 decision in *General Talking Pictures* ... that Lexmark would not have exhausted its patent rights in those cartridges, upon the manufacturing licensee's sale (the first sale), if a buyer with knowledge of the restrictions resold or reused them in violation of the restrictions." Pet. App. 26a.

That is neither undisputed nor clear, and *General Talking Pictures* held no such thing. In *General Talking Pictures*, the patent holder granted a nonexclusive license to American Transformer Company to manufacture and sell its patented sound amplifiers only for individual home use, not for commercial use. 304 U.S. at 179-180. Despite the limited license, American Transformer Company

knowingly violated the licensing agreement and sold the amplifiers to a movie company. The Court held that the sales "were outside the scope of [the] license and not under the patent" and thus constituted patent infringement. *Id.* at 180-82.

On rehearing, the Court again held that when the terms of a restricted license are violated *by the licensee*, a sale "outside the scope of the license ... is precisely the same as if no license whatsoever had been granted." 305 U.S. at 127. Thus, although the petition had framed the questions presented as whether, after an authorized sale (a sale "in the ordinary channels of trade"), a patentee could enforce post-sale restrictions through the patent law, the Court held that neither question "should be answered." *Id.* at 125. The amplifiers were not sold "under the patents" and did not pass to the purchaser "in the ordinary channels of trade"—they were sold illegally, in violation of the license. *Id.* The Court specifically noted that it had "no occasion to consider" what the outcome would have been had there been an authorized sale under the license accompanied by a "notice which purports to restrict the use of [the] articles lawfully sold." *Id.* at 127 (internal quotation marks omitted).

General Talking Pictures is thus a case where the patent owner's patent rights were not exhausted *because there was no authorized sale*. It does not hold that where there has been an authorized sale by a licensee, patent rights are still not exhausted, and the patent owner may still use the patent law to enforce

post-sale restrictions against downstream users.[7] To the contrary, the rule is the same regardless of who makes the sale: The first authorized sale exhausts the patent holder's patent rights in the article. Similarly, without an authorized sale, there is no exhaustion.

Thus, a patent holder who manufactures amplifiers may decide the price at which she wishes to sell them and sell only at that price. Similarly, a patent holder who does not manufacture the amplifiers on her own, but who instead chooses to license to another company the right to manufacture and sell them, may set the price at which the licensee may sell the amplifiers, and may enforce the license

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[7] The en banc majority also misunderstood *Motion Picture Patents*. That case held that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it." 243 U.S. at 516. The Federal Circuit focused on the word "unconditional," Pet. App. 42a, but this case is not about a "conditional" sale—it is about a "restricted" sale. As used in *Motion Picture Patents* and in other exhaustion cases (*e.g.*, *Mitchell v. Hawley*, 83 U.S. 544, 547 (1873)), a conditional sale was an agreement to sell whereby title would not pass until the performance of a condition precedent. *See, e.g.*, *Harkness v. Russell*, 118 U.S. 663, 666 (1886) (describing a "conditional sale" as an "agreement to sell upon a condition to be performed," in which title would only pass once the condition was performed). It was not every sale subject to a post-sale restriction. That much is clear from the pertinent sentence in *Motion Picture Patents* itself, which explains that an "unconditional sale" renders the patented article "free of every restriction which the vendor may attempt to put upon it." 243 U.S. at 516. If the "restriction which the vendor may attempt to put on" the patented article itself rendered the sale "conditional," the sentence would make no sense.

agreement through the patent law. *See, e.g., Gen. Elec. Co.*, 272 U.S. at 489-90; Mark R. Patterson, *Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing*, 49 Wm. & Mary L. Rev. 157, 164-65 (2007) ("manufacturing licensees in effect stand in the shoes of the patentee, and imposing use restrictions on them can reasonably be treated as economically equivalent to individual decisions by the patentee itself"). Once there has been an authorized sale by the patentee, or a sale within the scope of the license by the licensee, however, the patent holder may not set the price at which a purchaser may resell the amplifier or attempt to enforce a post-sale restriction through the patent law. *See, e.g., Gen. Elec. Co.*, 272 U.S. at 489; Patterson, *supra*, at 165. The rule is the same in both instances—after one authorized sale, whether by the patentee or the licensee, a patent owner's patent rights are exhausted, and she can no longer control how the patented article is used or resold.

CONCLUSION

For the reasons stated, the Court should grant the petition for certiorari.

Respectfully submitted,

Matthew R. Hulse
INTEL CORPORATION
2200 Mission College Blvd.,
Santa Clara, CA 95054

Avraham Schwartz
VIZIO, INC.
39 Tesla
Irvine, CA 92618

Mark S. Davies
Counsel of Record
Thomas M. Bondy
Logan Q. Dwyer
ORRICK, HERRINGTON & SUTCLIFFE LLP
1152 15th Street, N.W.
Washington, DC 20005
(202) 339-8400
mark.davies@orrick.com

Richard F. Martinelli
Rachel Wainer Apter
Elizabeth R. Moulton
ORRICK, HERRINGTON & SUTCLIFFE LLP
51 West 52nd Street
New York, NY 10019

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RECORD AND BRIEF

No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICI CURIAE* INTELLECTUAL PROPERTY PROFESSORS AND AMERICAN ANTITRUST INSTITUTE IN SUPPORT OF PETITIONER

Phillip R. Malone
Counsel of Record
Jef Pearlman
JUELSGAARD INTELLECTUAL PROPERTY AND INNOVATION CLINIC
MILLS LEGAL CLINIC AT STANFORD LAW SCHOOL
559 Nathan Abbott Way
Stanford, CA 94305
(650) 725-6369
pmalone@law.stanford.edu

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INTEREST OF *AMICI CURIAE*

Amici law professors, listed in the Appendix, are academics who study intellectual property and innovation.[1] Their interest in this case stems from their professional academic interest in guiding the development of law in the way that most benefits society. *Amici* have no personal interest in the outcome of this case.

Amicus the American Antitrust Institute (AAI) is a nonprofit education, research, and advocacy organization devoted to advancing competition in the economy, protecting consumers, and sustaining the vitality of the antitrust laws. The AAI has long recognized the important role that exhaustion doctrine plays in facilitating competition in product markets driven by intellectual property, including aftermarkets. *See, e.g.*, Brief for *Amicus Curiae* American Antitrust Institute in Support of Petitioners, *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (No. 06-937).

SUMMARY OF THE ARGUMENT

The Federal Circuit has strayed from this Court's guidance on core exhaustion issues and eviscerated

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[1] Pursuant to Rule 37.2(a), counsel for both parties received notice of intent to file this brief at least 10 days before its due date. The parties have consented to the filing of this brief; their written consents are on file with the Clerk. No counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund its preparation or submission. No person other than the *amici* or their counsel made a monetary contribution to the preparation or submission of this brief.

important limits on patent holders' rights, which limits are necessary to protect the public interest.

A patent should provide only enough insulation from competition to incentivize innovation. Once a patentee has received his reward, this Court's precedent encourages public use and dissemination of patented articles through patent exhaustion doctrine, which limits a patentee's ability to control downstream purchasers after placing a patented article in the stream of commerce. Having authorized the first sale of a patented article, a patentee's rights in the subsequent use of that article are no greater than if it had never been patented.

The Federal Circuit below radically reconceptualized this longstanding doctrine as a mere presumption of authority, which conflicts with this Court's common-law precedent going back over 150 years. Under the Federal Circuit's reading, exhaustion doctrine is merely a default arrangement that a patentee can change with questionably effective contract terms—or even unilateral pronouncements—not a hard-and-fast limit on a patentee's rights. But *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), clarified that any authorized sale exhausts patent rights and that any conditions on sale, if they amount to valid agreements, are properly enforced via contract, not patent, law.

The Federal Circuit similarly lost sight of exhaustion's core purpose when it held that foreign sales authorized by the U.S. patentee never exhaust U.S. patents. This holding clashes with this Court's opinion in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which rejected the idea that

international exhaustion implicates extraterritoriality and reaffirmed the common-law principles against restraints on alienation that animate both copyright and patent exhaustion.

These holdings represent significant deviations from this Court's precedent. Reviewing this case would offer this Court the optimal opportunity to ensure that such deviations come only from the Supreme Court.

ARGUMENT

I. Exhaustion Is an Important, Longstanding Doctrine That Promotes Diffusion of Technology Through Channels of Commerce

The time-honored doctrine of patent exhaustion provides that once a patented article is sold by the patentee or someone authorized by the patentee, the patentee's rights in that article are spent. The purchaser may subsequently use or dispose of the article the same way he can dispose of his other, unpatented possessions. Exhaustion is deeply rooted in common-law policies against double recovery and restraints on alienation, and it places important limits on the rights the public grants a patentee in exchange for his invention.

Double recovery may occur where a patentee extracts a royalty at two stages of the distribution chain: once when the patented article is first sold, and again when it is resold. Where this results in the patentee recovering more than one monopoly rent, it overcompensates the patentee in relation to the societal benefit he has provided. As this Court has recognized, "the primary purpose of our patent laws is not the creation of private fortunes for the owners

of patents, but is 'to promote the progress of science and the useful arts.'" *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917) (quoting U.S. Const. art. I, § 8, cl. 8). Exhaustion doctrine arose to limit patentees' rights to those necessary to incentivize innovation. A patentee has substantial control over the first sale of a patented article, but once he has extracted one monopoly royalty, patent doctrine encourages dissemination of that particular product to the public. *See Bloomer v. Millinger*, 68 U.S. 340, 350 (1863) (stating that "[patentees] are entitled to but one royalty for a patented machine").

A clear exhaustion rule also promotes the alienability of patented articles and reduces transaction costs. Unlike clear, reliable property rights, idiosyncratic arrangements of rights that depend on what covenants or conditions an upstream seller has attached to a chattel impose high information costs on purchasers. *See* Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250, 1261 (1956); Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The* Numerus Clausus *Principle*, 110 Yale L.J. 1, 26-28 (2000). Consequently, the law has almost uniformly found personal property servitudes unenforceable. *See* Molly Shaffer Van Houweling, *The New Servitudes*, 96 Geo. L.J. 885, 906 (2008). Post-sale restrictions on patented articles present the same concerns, and this Court has rejected them for the same reasons. *See Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917) ("[I]t must be recognized that not one purchaser in many would read such a notice, and that not one in a much

greater number, if he did read it, could understand its involved and intricate phraseology . . . ."); *see also* Samuel F. Ernst, *Patent Exhaustion for the Exhausted Defendant: Should Parties Be Able to Contract Around Exhaustion in Settling Patent Litigation?*, 2014 U. Ill. J.L. Tech. & Pol'y 445, 472 (describing information costs associated with multiple royalty transactions).

This Court has recognized this affirmative policy on the free movement of goods as the rationale behind exhaustion in the context of both use and geographic restrictions. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) (emphasizing in the copyright context "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods").

This Court has consistently refused to enforce patentees' post-sale restrictions. *See, e.g.*, *Straus*, 243 U.S. at 500-01 (invalidating a price-fixing "license notice" attempting "to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest").

Similarly, this Court has recognized that geographic restraints on alienation offend the public's interest in dissemination of patented goods. *See Adams v. Burke*, 84 U.S. 453 (1873); *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659 (1895). In both *Adams* and *Keeler*, the patentees had assigned the rights to make, use, and sell patented articles to different manufacturers in different U.S. regions. Yet this Court held that when a purchaser bought

patented articles from a manufacturer with rights in one locality, and subsequently used or sold them in another manufacturer's locality, the second manufacturer had no rights against the user or reseller, *Keeler*, 157 U.S. at 666 ("[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place."); *Adams*, 84 U.S. at 456-57, because "[t]he inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration," *Keeler*, 157 U.S. at 667. Furthermore, in *Kirtsaeng*, this Court held that copyright's first-sale doctrine cannot be read to incorporate geographic distinctions in light of the common-law policy against personal property servitudes, *Kirtsaeng*, 133 S. Ct. at 1363, which policy similarly drives patent law.

II. The Federal Circuit's Opinion Below Radically Reconceptualizes the Exhaustion Doctrine in a Way That Departs from This Court's Established Precedent and Vitiates the Doctrine

The Federal Circuit below abandoned this long-standing limit restricting the rights of patentees to exercise downstream market control over patented articles released into the stream of commerce. It wholly reconceptualized exhaustion from a bedrock policy against restraints on alienation to a mere "presumption" of "authority" which patentees can revoke just by saying so. This unwarranted transformation vitiates the exhaustion doctrine as articulated by this Court.

The Federal Circuit decided that the exhaustion doctrine is textually tied to the word "authority" in

§ 271 of the 1952 Patent Act, such that the question of what is and what is not infringement depends only on what authority the patentee has granted. In its view, "[i]f ordinary congressional supremacy is to be respected, exhaustion doctrine in the Patent Act must be understood as an interpretation of § 271(a)'s 'without authority' language;" therefore, because "nothing in § 271(a) constrains the patentee's choices about whom to grant the required authority, if anyone, or about which acts . . . to authorize," no such constraints exist. Pet. App. 24a. This logic suggests that any post-sale restriction, whether enforceable as a contract or not, effectively defeats exhaustion.

But the Federal Circuit's reasoning ignores that the exhaustion doctrine is grounded in nearly 150 years of this Court's precedent, not in the text of the 1952 Patent Act.

The 1952 statute was enacted against the background of this Court's established exhaustion doctrine. The fact that Congress did not choose to codify that doctrine does not mean that more than a century of judicial common law should be abandoned. *See Kirtsaeng*, 133 S. Ct. at 1363 ("'[W]hen a statute covers an issue previously governed by the common law,' we must presume that 'Congress intended to retain the substance of the common law.'" (alteration in original) (quoting *Samantar v. Yousuf*, 560 U.S. 305, 320 n.13 (2010)); *United States v. Texas*, 507 U.S. 529, 534 (1993) ("In order to abrogate a common-law principle, the statute must 'speak directly' to the question addressed by the common law."). Thus, the *exhaustion doctrine itself* constrains the patentee's choices. The Federal Circuit cannot diminish this doctrine's independent legitimacy by ignoring its

common-law origins any more than it is free to eliminate by judicial fiat patent law's doctrine of equivalents or the equitable defenses of laches and estoppel.

Though the Federal Circuit acknowledges that the "authority" in § 271(a) can come from sources other than the patentee, such as the patent law itself, it denies that the exhaustion doctrine could be such a source, simply because it is uncodified. Pet. App. 22a. ("Nothing in the Act supersedes the § 271 requirement of authority from the patentee . . . .").

Under the Federal Circuit's parsing of the word "authority," the exhaustion doctrine is reduced to a species of implied license. But this Court has clarified that implied license is a separate defense from that of exhaustion, even under the 1952 Act. *See Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 637 (2008) ("[T]he question whether third parties received implied licenses is irrelevant because Quanta asserts its right to practice the patents based not on implied license but on exhaustion."). Therefore, exhaustion must be more than just a presumption of authority with no independent force.

The Federal Circuit's misunderstanding of exhaustion caused it to mistakenly hold that a patent grants to its owner unlimited power to exclude any and all uses of the patent as long as the restrictions are "within the scope of the patent grant," contrary to this Court's consistent rejection of post-sale restraints to prevent patent exhaustion.

In recasting this Court's precedent as narrowly supporting exhaustion only as a presumption of authority subservient to the purposes of antitrust,

the Federal Circuit also short-changes the important public policies underlying exhaustion doctrine.

This Court should hear this case to restore the exhaustion doctrine to its proper scope and ensure that patentees enjoy only those rights the law entitles them to.

A. The Federal Circuit's Enforcement of Post-Sale Restraints to Evade Patent Exhaustion Is Inconsistent with This Court's Precedent

The Federal Circuit's holding in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), reaffirmed en banc below, was contrary to Supreme Court precedent when it was decided, and this Court's opinion in *Quanta* further undermined *Mallinckrodt*'s foundation.

1. Since *Bloomer v. McQuewan*, 55 U.S. 539 (1852), this Court has acknowledged that when a patented item "passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. In numerous decisions applying the exhaustion doctrine prior to 1952, this Court ruled that post-sale restrictions could not prevent patent exhaustion. *See, e.g., United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942) ("The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."); *see also* Pet. App. 106a-109a (Dyk, J., dissenting) (collecting cases); Pet. 12-13 (same). The Federal Circuit's view of exhaustion as a presumption, within a patentee's control, clashes with this Court's explanation that sale takes an

article "outside" or "beyond the reach of the monopoly."

In discussing these cases, the Federal Circuit misses the forest for the trees. Because it could not find in these precedents an exact analog of the facts here at issue—a sale of a patented article made subject to use restrictions that don't facially violate antitrust—the court limited exhaustion doctrine to those factual circumstances. Pet. App. 49a-56a. But it is not the role of the Federal Circuit to confine this Court's consistent rulings to their facts in order to cabin the scope of exhaustion. In any event, the reasoning of this Court's exhaustion cases is not so limited.

Three examples are illustrative. In *Motion Picture Patents*, the Court held that the patentee could not, by way of a notice attached to the patented projector, require that it be used only with the patentee's films (on which the patent had expired) on pain of patent infringement. *Motion Picture Patents*, 243 U.S. at 518. The court below, as in *Mallinckrodt*, distinguished *Motion Picture Patents* by relegating its holding to cases involving patent misuse. Pet. App. 53a-54a. But *Motion Picture Patents* emphasized longstanding policies, discussed above, against personal property servitudes and double recovery. It noted that patent law did not allow a patentee

> to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid, to be imposed thereafter at the discretion of such patent owner. The patent law furnishes no warrant for such a practice, and the cost,

> inconvenience, and annoyance to the public which the opposite conclusion would occasion forbid it.

Motion Picture Patents, 243 U.S. at 516. Despite its facts, this case cannot be viewed solely as a patent misuse case; rather these principles are broadly applicable to exhaustion cases.

Another example of the Federal Circuit's unduly narrow reading is *Bloomer v. Millinger*, 68 U.S. 340 (1863). The Federal Circuit reasoned that the Court's reference "to a constructor or purchaser of a patented machine having '*also* acquired the right to use and operate it during the lifetime of the patent," meant "the Court implicitly recognized that a purchaser might *not* acquire a full right to use an acquired article." Pet. App. 36a. But any affirmative articulation implies the possibility of a negative—that doesn't undermine the force of the affirmative statement.

Finally, the Federal Circuit dismissed the language in *Adams* that "the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine," *Adams*, 84 U.S. at 455, and *Keeler* that "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles," *Keeler*, 157 U.S. at 666, as pertaining only to the "unconditional" sales described in those cases, Pet. App. 29a, 36a, 50a-51a. But as the dissent points out, nineteenth century "conditions" on sale more often connoted conditions on title transfer, not conditions on use. Pet. App. 115a-116a (Dyk, J., dissenting).

2. This Court made clear in *Quanta* that this common-law exhaustion precedent survived the enactment of the 1952 Patent Act.

In *Quanta*, LGE licensed Intel to make and sell components substantially embodying its patents, but disclaimed any license to Intel's customers to combine those components with non-Intel parts. *Quanta*, 553 U.S. at 623. This Court rejected LGE's patent infringement claims against Intel's customers because LGE had unconditionally authorized Intel's sales, notwithstanding LGE's attempted post-sale restriction. *Id.* at 636-37. This Court's broad articulation of exhaustion doctrine—that "the initial authorized sale of a patented item terminates all patent rights to that item," *id.* at 625—cannot be reconciled with *Lexmark*'s rule that parties can freely forestall exhaustion with the type of sticker notice present here.

First, it is clear throughout *Quanta* that this Court was relying on its own exhaustion precedent, not "interpret[ing] . . . § 271(a)'s 'without authority' language." Pet. App. 24a. The opinion opens with the declaration: "For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item." *Quanta*, 553 U.S. at 621. It does not even cite § 271. Thus, as recently as 2008, this Court cemented exhaustion as an independent, judicially created, common-law doctrine that has been continuously applied for over a century—not a gloss on the 1952 Act's text.

Second, while the court below cabined *Univis*'s holding to price-maintenance cases, Pet. App. 54a-55a, *Quanta* clarified that *Univis* applies more

broadly. The *Quanta* Court made clear that "*Univis* governs this case," despite the absence of allegations of patent misuse or anticompetitive behavior in *Quanta*. *Quanta*, 553 U.S. at 631. Per *Quanta*, *Univis* stands for the much broader proposition that an "authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Id.* (quoting *Univis*, 316 U.S. at 249).

Third, the *Quanta* decision endorsed the principle that the exhaustion doctrine exists to broadly prohibit restraints on alienation. Though articulated in a part of the opinion about the exhaustibility of method patents, this Court recognized the "danger" of a contrary holding which would permit an "end-run around exhaustion." *Quanta*, 553 U.S. at 630. It refused to accept a rule where, "although Intel is authorized to sell a completed computer system that practices the LGE Patents, any downstream purchasers of the system could nonetheless be liable for patent infringement" because such a rule would "violate the longstanding principle that, when a patented item is 'once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.'" *Id.* (quoting *Adams*, 84 U.S. at 457) (alteration in original) (emphasis omitted). This Court's policy concerns against personal property servitudes have equal force when applied to post-sale restrictions, which also serve to restrain the downstream use of lawfully made and sold items.

3. While this Court in *Quanta* acknowledged the continuing validity of *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938), that

case is consistent with overruling *Mallinckrodt*. *General Talking Pictures* merely stands for the unremarkable proposition that (1) a patent owner may place restrictions on a manufacturer-licensee as to who is authorized to purchase a patented product, and (2) one who knowingly purchases from a licensee who is violating its license is as liable as the licensee.

In *General Talking Pictures*, the Transformer Company had a license to sell amplifiers only for home use—another company was granted exclusive rights to sell for commercial use. *Id.* at 125-26. Transformer Company, knowing that General Talking Pictures would use them commercially, nevertheless sold amplifiers to General Talking Pictures, which in turn knew that the sale violated Transformer Company's license. *Id.* at 126. The Court held, unsurprisingly, that Transformer Company was an infringer for violating its license. *Id.* The Court also held that "as Pictures Corporation ordered, purchased, and leased [the amplifiers] *knowing* the facts, it also was an infringer." *Id.* (emphasis added). The case does not stand for the proposition that a term in a license between the patentee and a licensee binds all subsequent purchasers in patent law. If the case were simply one in which the sale was treated as unauthorized, that fact alone—that Transformer Company made an unauthorized sale—would be enough to hold that exhaustion doctrine did not apply. In that case, General Talking Pictures would be strictly liable as though it had purchased from a direct infringer, and its knowledge would be irrelevant. But the Court emphasized General Talking Pictures' "knowing the facts," citing it as the reason for liability. *Id.* at 126-27. Thus, the case is better understood as saying

that General Talking Pictures *induced* Transformer Company's infringement, and therefore was indirectly liable.

The decision below expanded *General Talking Pictures* to hold that patent liability can attach to downstream purchasers as well as manufacturer-licensees. Pet. App. 43a-44a. Even apart from the fact that the Federal Circuit's reading elevates *General Talking Pictures* over every other exhaustion case this Court has decided, there is a perfectly good reason for this Court to enforce patent remedies against licensees who make and sell patented products, but not against simple buyers. A manufacturer must obtain a patent license in any event, and that license necessarily controls the number of products it can put into the stream of commerce. If it did not, any patentee who turned to a third party to manufacture its goods would lose control over how many of the patented goods were made and sold at all. If the patentee itself makes the goods and sells them, by contrast, it has by definition chosen to release those goods—and only those goods—into the market.

B. The Federal Circuit's Conception of Post-Sale Restraints Mistakes the Place of Exhaustion Within the Broader Doctrine

1. The Federal Circuit's Exhaustion Framework Distorts Its Application of Contract and Antirust Law

The Federal Circuit repeatedly states that post-sale restrictions must be "otherwise lawful" to be enforceable, Pet. App. 19a, 25a, 26a, 33a, 40a, 55a, 62a, by which it means that the restrictions by their

terms must comport with, among other things, ordinary commercial and antitrust law, *id.* at 27a (citing *Mallinckrodt*, 976 F.2d at 703). But subordinating the determination of the limits of a patentee's rights to these other doctrines denies that the exhaustion doctrine has an independent public policy justification. Furthermore, the existence of a patent appears to influence the Federal Circuit's interpretation of these other doctrines in a way that unnecessarily favors the patentee and harms the public interest.

a. Preventing patentees from violating contract or antitrust law when they impose post-sale restrictions may ensure that the goals of those other laws are served. But the exhaustion doctrine's purpose extends beyond promoting competition and allowing parties to make enforceable commitments. Exhaustion limits the rights of patentees to only what is required to incentivize innovation and avoids restraints on alienation that would prevent patented goods from diffusing through the channels of trade to the public benefit. Contract and antitrust law do not suffice to uphold the rationale of exhaustion.

Allowing post-sale use restrictions to encumber patented goods with servitudes enforceable via patent remedies produces consequences representing an "inconvenience and annoyance to the public" that the *Keeler* Court thought "too obvious to require illustration." *Keeler*, 157 U.S. at 667. Those consequences demonstrate exhaustion's importance beyond competition and commercial policy.

The Federal Circuit's interpretation would allow a patentee to unilaterally impose any restriction it wished on any product it sold, and have that

restriction bind the first purchaser and any subsequent purchasers as a matter of patent, not contract, law. As it stands, a patentee could sell its pharmaceuticals "only to be swallowed whole," or a radio "only for use on Sundays," and sue someone who splits his pills or forgets the day of the week, for patent infringement—even willful patent infringement. Less fancifully, a patentee could sell a car with a "no resale" restriction and shut down the market for used cars. Or, similar to the facts here, a patentee could sell a reusable product with a restriction on reuse, and sue anyone who recycled the product for patent infringement. Under the Federal Circuit's theory, the patentee could sue even a downstream purchaser who had no notice of any such restriction. That is the consequence of treating a violation of any post-sale restriction as patent infringement (a strict liability offense), rather than just a contractual breach. It is no answer to say that patentees will not abuse this power and will impose only reasonable restrictions. Whether or not this Court considers a requirement to throw away a perfectly functional product rather than refilling it reasonable, a law that depends for its legitimacy on plaintiffs choosing not to enforce it is unsound—causing "uncertainty," "selective enforcement," and "disrespect" for the law. *Kirtsaeng*, 133 S. Ct. at 1366.

b. The Federal Circuit below enforced Lexmark's post-sale restrictions without even determining whether there was a valid contract between the parties. The court insisted that the parties stipulated that notice of the conditions was adequate, Pet. App. 12a, 14a, 60a, but nowhere did the Federal Circuit acknowledge that notice alone is not enough

to create a valid contract—at a minimum, a meaningful manifestation of assent is also required. *See* Mark R. Patterson, *Must Licenses Be Contracts?: Consent and Notice in Intellectual Property*, 40 Fla. St. U. L. Rev. 105, 123-24 (2012) (discussing the invalidity of *Mallinckrodt*'s label license as a contractual matter); *see also UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1182-83 (9th Cir. 2011) (holding that a restrictive label license attached to a promotional CD was in fact a title transfer subject to first-sale doctrine because merely "accept[ing]" an unsolicited item did not constitute "acceptance" of the license terms). The Federal Circuit has recognized elsewhere that a "label license" is subject to scrutiny under ordinary contract law principles. *See, e.g.*, *Hewlett-Packard v. Repeat-O-Type Stencil Mfg. Co.*, 123 F.3d 1445, 1453 (Fed. Cir. 1997) ("[A] seller's intent, unless embodied in an enforceable contract, does not create a limitation on the right of a purchaser to use, sell, or modify a patented product . . . ."). But the Federal Circuit decided *Lexmark* based on notice alone, without analysis even of which state's contract law would govern. *Lexmark* thus exposes another danger of the Federal Circuit's revisionist theory of exhaustion doctrine: patentees may enlist the federal courts to grant powerful patent law remedies based on unilateral post-sale restrictions otherwise unenforceable under contract law.

The Federal Circuit's approach permits precisely the sort of restraint on alienation against which this Court has repeatedly warned: even unsuccessful efforts to impose contract terms on a buyer now impose the much greater restrictions of patent law not just on the buyer, but on the world at large.

c. As with contract law, the Federal Circuit's focus on the "scope of the patent" distorts its analysis of post-sale restrictions under antitrust. The patent should play no role in the analysis if the patent rights are exhausted. Moreover, this Court has recently affirmed that whether conduct is within the scope of the patent is itself partly a function of antitrust law. *Fed. Trade Comm'n v. Actavis, Inc.*, 133 S. Ct. 2223, 2231 (2013) ("[P]atent and antitrust policies are both relevant in determining the 'scope of the patent monopoly'—and consequently antitrust law immunity—that is conferred by a patent.").

2. This Court Has Repeatedly Indicated That Valid Contract Remedies Can Adequately Protect the Post-Sale Interests of Patent Owners

The Federal Circuit has not only ignored this Court's precedent to allow enforcement of post-sale restrictions with patent remedies, but also has refused to heed this Court's frequent admonishments that contract remedies are available and adequate where there is a valid contract.

This Court first identified contract law as the proper framework to enforce post-sale use restrictions in *Keeler*:

> Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.

Keeler, 157 U.S. at 666. Quoting that exact language, this Court in *Quanta* indicated its continued understanding that contracts would be the appropriate remedy. *Quanta*, 553 U.S. at 637 n.7 ("[T]he authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages." (citing *Keeler* with approval)); *see also Motion Picture Patents*, 243 U.S. at 509 ("The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question outside the patent law . . . .").

Contract remedies require privity and generally do not allow parties to obtain injunctions. Those are reasonable limits to impose on patentees seeking to burden downstream purchasers with significant transaction costs and restraints on trade by reaching beyond the patent law limits. And contract remedies put patentees in no worse a position post-sale than the many commercial entities who conduct business without the benefit of a statutory monopoly.

Without this Court's guidance, the Federal Circuit's misunderstanding of the relationship between patent law and other doctrines will persist, allowing patentees to stifle innovation by threatening patent suits for violation of any post-sale restriction, regardless of whether the restriction is valid under contract law.

III. The Federal Circuit's Approach Evades Precedent to Improperly Conclude that International Exhaustion Would Implicate Extraterritoriality

The Federal Circuit's holding in *Lexmark* restricting exhaustion to sales that occur within the physical territory of the United States ignored this Court's precedent rejecting geographic limits on exhaustion. Pet. App. 104a. This Court in *Kirtsaeng* rejected the notion that an international first-sale doctrine in copyright entailed extraterritorial application of U.S. law and emphasized the common-law roots of copyright's first-sale doctrine. *Kirtsaeng*, 133 S. Ct. at 1363.

1. Departing from this Court's precedent, the Federal Circuit claimed below that "sales in foreign markets should not be presumed to confer on the buyer authority to displace sales in American markets" because "[p]atent law is especially territorial, and laws vary considerably from country to country." Pet. App. 86a. But the territorial nature of patent law is hardly unique: "copyright laws do not have any extraterritorial operation," either. 4 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 17.02, at 17-18 (2012). *Kirtsaeng* rejected the view that international exhaustion requires extraterritorial application of U.S. copyright law, holding the Copyright Act "applicable" to anything "subject to protection" under it, including "unpublished works 'without regard to the nationality or domicile of the author,' and works 'first published' in any one of the nearly 180 nations that have signed a copyright treaty with the United States." *Id.* at 1359 (emphasis omitted) (quoting 17

U.S.C. §§ 101, 104 (2006)). There is no basis for a different conclusion under patent law.

International patent exhaustion does not entail extraterritorial application of U.S. law because it does not regulate foreign sales or foreign conduct—it merely affects how subsequent U.S. activities are regulated. *See LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009) (collecting Supreme Court and Circuit cases). Moreover, other areas of patent law recognize that foreign conduct can affect subsequent U.S. activities. The novelty requirement for patentability provides that foreign use or sale of an invention can foreclose an inventor's ability to obtain U.S. patent rights. 35 U.S.C.A. § 102(a) (West 2015). Those foreign uses or sales are not themselves regulated, but nonetheless affect how subsequent U.S. patent applications are regulated.

Furthermore, the legal community has long recognized that the Federal Circuit's rejection of international exhaustion, reaffirmed in the decision below, evades precedent and relies on a misreading of a single case, *Boesch v. Graff*, 133 U.S. 697 (1890). *See, e.g.*, John A. Rothchild, *Exhausting Extraterritoriality*, 51 Santa Clara L. Rev. 1187, 1198-201 (2011) (explaining the Federal Circuit's misinterpretation of *Boesch* and collecting contrary precedent).

2. Patent exhaustion and copyright first-sale are rooted in the same common-law tradition, and they share the same important policy rationales. *Kirtsaeng* noted that commentators as far back as the fifteenth century had recognized "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those

goods," *Kirtsaeng*, 133 S. Ct. at 1363 (citing 1 E. Coke, *Institutes of the Laws of England* § 360, at 223 (1628) (commenting on Littleton, Treatise on Tenures (circa 1480)), and that "[t]he common-law doctrine makes no geographical distinctions," *id.* *Kirtsaeng* also recognized that "a geographical interpretation would fail to further basic constitutional copyright objectives, in particular 'promot[ing] the Progress of Science and useful Arts.'" *Id.* at 1364 (quoting U.S. Const. art. I, § 8, cl. 8) (alteration in original). Patent law arises from the same constitutional clause, and similar concerns apply.

The Federal Circuit recently recognized that "copyright cases inform similar cases under patent law." *LifeScan Scotland, Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1375 n.9, 1376 (Fed. Cir. 2013) (citing *Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 13-14 (1913)) (looking to *Kirtsaeng* and the "common policies underlying patent exhaustion and the first-sale doctrine" to hold that an authorized transfer of title exhausted the patent even when the item was given away). Less than three years later, however, the Federal Circuit inexplicably abandoned this position when it decided *Lexmark*, which implicates similar patent exhaustion issues. Pet. App. 68a ("*Kirtsaeng* says nothing about patent law."). Because patent law lacks a statutory pronouncement limiting exhaustion to domestic sales, patent exhaustion is even more informed by the common-law tradition than copyright's codified first-sale doctrine. As the *Kirtsaeng* Court noted, this common-law tradition does not, and logically cannot, support geographical limitations to patent exhaustion.

The international exhaustion rule announced below undermines *Kirtsaeng* and reaches precisely the "absurd result" that the *Kirtsaeng* Court was determined to prevent—namely, a rule where "the copyright owner can exercise downstream control even when it authorized the import or first sale." *Kirtsaeng*, 133 S. Ct. at 1366. The Court was concerned that such a rule "would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software" where the car was manufactured abroad with software components purchased from foreign suppliers. *Id.* at 1365. Without international patent exhaustion, the same "absurd result" will persist in patent law. It would even affect many of the same products, such as cars, which contain patented as well as copyrighted components. There is nothing special about patent incentives that justifies different levels of downstream control for patentees than for copyright owners.

This Court should correct the Federal Circuit's unfounded conclusion that international exhaustion requires extraterritorial application of U.S. patent law because it evades precedent and cannot be reconciled with *Kirtsaeng*.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

Phillip R. Malone
Counsel of Record
Jef Pearlman
JUELSGAARD
INTELLECTUAL
PROPERTY AND
INNOVATION CLINIC
MILLS LEGAL CLINIC AT
STANFORD LAW SCHOOL
559 Nathan Abbott Way
Stanford, CA 94305
(650) 725-6369
pmalone@law.stanford.edu

April 21, 2016

APPENDIX

Amici curiae law professors are listed below. Affiliation is provided for identification purposes only, and the brief does not reflect the views of the listed institutions.

Jeremy W. Bock
Assistant Professor of Law
Cecil C. Humphreys School of Law
The University of Memphis

Dan L. Burk
Chancellor's Professor of Law
University of California, Irvine, School of Law

Irene Calboli
Professor of Law
Texas A&M University School of Law
Lee Kong Chian Fellow & Deputy Director
Applied Research Centre for Intellectual Assets and the Law in Asia
School of Law, Singapore Management University
Fellow, Transatlantic Technology Law Forum
Stanford Law School

Michael A. Carrier
Distinguished Professor
Co-Director, Rutgers Institute for Information Policy & Law
Rutgers Law School

Ralph D. Clifford
Professor of Law
University of Massachusetts School of Law

Samuel Ernst
Assistant Professor
Dale E. Fowler School of Law
Chapman University

Shubha Ghosh
Crandall Melvin Professor of Law
Director, Technology Commercialization Law Center
Syracuse University College of Law

Dennis S. Karjala
Jack E. Brown Chair and Professor of Law
Sandra Day O'Connor College of Law
Arizona State University

Ariel Katz
Associate Professor
Innovation Chair in Electronic Commerce
Faculty of Law, University of Toronto

Mark A. Lemley
William H. Neukom Professor of Law
Director, Stanford Program in Law, Science, and Technology
Stanford Law School

Yvette Joy Liebesman
Associate Professor of Law
Saint Louis University School of Law

Lydia Pallas Loren
Robert E. Jones Professor of Advocacy and Ethics
Lewis & Clark Law School

Brian J. Love
Assistant Professor
Co-Director, High Tech Law Institute
Santa Clara University School of Law

Michael J. Madison
Professor of Law
Faculty Director, Innovation Practice Institute
University of Pittsburgh School of Law

Walter Matystik
Associate Provost
Adjunct Professor
Manhattan College

Stephen McJohn
Professor of Law
Suffolk University Law School

Mark P. McKenna
Associate Dean for Faculty Research and Development
Professor of Law and Notre Dame Presidential Fellow
Notre Dame Law School

Aaron Perzanowski
Professor of Law
Case Western Reserve University School of Law

Pamela Samuelson
Richard M. Sherman '74 Distinguished Professor of Law
Professor of Information Management
University of California, Berkeley

Kurt M. Saunders
Professor of Business Law
California State University, Northridge

Molly Shaffer Van Houweling
Associate Dean
Professor of Law
University of California, Berkeley

Ryan Vacca
Associate Professor of Law
Director, Center for Intellectual Property Law & Technology
The University of Akron School of Law

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IN THE

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IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF PUBLIC KNOWLEDGE, THE ELECTRONIC FRONTIER FOUNDATION, AND THE R STREET INSTITUTE AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

DANIEL NAZER
KIT WALSH
ELECTRONIC FRONTIER FOUNDATION
815 Eddy Street
San Francisco, CA 94109
(415) 436-9333

CHARLES DUAN
Counsel of Record
DALLAS HARRIS
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
(202) 861-0020
cduan@publicknowledge.org

Counsel for amici curiae

QUESTIONS PRESENTED

According to the patent exhaustion doctrine, once a patentee sells an article embodying the patented invention, "the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942). Yet the Court of Appeals approved of two mechanisms by which a patentee may sell a patented article and yet still control use or disposition of that article. The questions presented are whether those mechanisms are tenable under the exhaustion doctrine. Specifically:

1. Whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefor permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng v. John Wiley & Sons, Inc.* that the common law doctrine barring restraints on alienation that is the basis of the exhaustion doctrine "makes no geographical distinctions," 133 S. Ct. 1351, 1363 (2013), a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

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INTEREST OF *AMICI CURIAE*

Amici curiae[1] are organizations that advocate for balanced intellectual property law that preserves the rights of the public. The present case relates specifically to consumer rights in ownership of property, and each organization has a strong interest in the correct development of patent law in this area.

Public Knowledge is a non-profit organization dedicated to preserving the openness of the Internet and the public's access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. As part of this mission, Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new, emerging technologies.

The Electronic Frontier Foundation is a non-profit civil liberties organization that has worked for more than 25 years to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 26,000 dues-paying members have a strong interest in helping the courts and policy-makers strike the appropriate balance between intellectual property and the public interest.

The R Street Institute is a non-profit, non-partisan public-policy research organization. R Street's mission

[1]Pursuant to Supreme Court Rule 37.2(a), all parties recieved appropriate notice of the filing of this brief. Respondent consented to the filing of this brief; Petitioners provided blanket consent. Pursuant to Rule 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity, other than *amici*, their members, or their counsel, made a monetary contribution to the preparation or submission of this brief.

is to engage in policy research and educational outreach that promotes free markets, as well as limited yet effective government, including properly calibrated legal and regulatory frameworks that support Internet economic growth and individual liberty. R Street's particular focus on Internet law and policy is one of offering research and analysis that show the advantages of a more market-oriented society and of more effective, more efficient laws and regulations that protect freedom of expression and privacy.

SUMMARY OF ARGUMENT

Though this case arrives before this Court in the trappings of intellectual property law, it actually deals with a much more fundamental type of property: consumer rights in personal objects, bought and sold in commerce. Such rights have traditionally been jealously guarded and defended.

Yet in affirming two exceptions to the doctrine of patent exhaustion, the Court of Appeals sustained two wide loopholes to those traditional notions of ownership. These loopholes, invented solely by the Federal Circuit, effectively allow any patent-owning seller of goods to destroy consumer expectations in property ownership, by permitting the seller to control use or disposition of physical goods sold and to wield the hammer of patent law to enforce those restraints.

1. The idea that patent law permits sellers of goods to dictate how downstream purchasers may use or resell their possessions stands in stark contrast to every other analogous doctrine. Centuries-old common law holds that ownership of property, especially personal property, may not be restricted by the seller. That law was carried forth within the United States, with state property laws uniformly disapproving so-called "chattel servitudes," attempts by sellers to introduce covenants and other restrictions running with personal property.

Intellectual property law followed the same path, denying sellers the ability to use intellectual property rights to restrain buyers from using or reselling their purchases. So well established is the first sale doctrine in copyright law that Justice Breyer deemed it to have "an impeccable historic pedigree." And product manufacturers have sought to use copyright law and a related anti-

circumvention of copyright protection statute as tools to prevent consumers from using sold products in ways undesirable to the manufacturers—but courts have uniformly resisted such efforts.

Unsurprisingly, this Court's long line of precedent on patent exhaustion has taken the same tack, refusing to admit any attempt to let patent law adulterate the traditional right of individuals to use and resell their possessions. The Federal Circuit's creation of exceptions to that traditional right thus conflicts with centuries of traditional property doctrines. Such "patent exceptionalism" is unwarranted and unnecessary, and this Court should grant certiorari to correct it.

2. The Federal Circuit's position on patent exhaustion is not merely deviant from the norms of law; it also is a serious impediment to consumer choice, free markets, competition, and individual liberty and autonomy.

The ordinary incidents of property ownership are critical to ensuring competitive markets and consumer rights. Secondary markets in goods permit efficient maximization of value, prevent price discrimination, and avoid waste by enabling reuse and recycling. Full ownership rights also include a right to repair, which opens up a valuable marketplace for repair services.

But ownership rights do not merely have economic value; they are essential to fundamental rights such as speech, autonomy, and privacy. Central to ownership are rights to understand, analyze, and innovate upon one's possessions. These rights take on special importance in an age where personal devices are increasingly complex and computer-driven, and yet whose inner workings are increasingly shielded from consumers' view. Reverse-engineering and tinkering are necessary to uncover flaws

and vulnerabilities in complicated devices, to protect users of those devices from undesired behavior such as spying, and to make devices simply work with others.

By creating an avenue for product sellers to undercut traditional rights and privileges of possessory ownership, the Federal Circuit severely undercuts these strong interests of consumers, of free market competition, and of individual liberty. This mistaken path of patent law further demonstrates the urgent need for this Court to address the Federal Circuit's decision.

3. The present case is an ideal vehicle for deciding these important questions of the patent exhaustion doctrine that implicate vast swaths of the public interest. The decision below affirmed two mechanisms by which a patent-owning seller of goods may circumvent exhaustion: first, by affixing a post-sale restriction to the product; and second, by selling the product abroad such that exhaustion does not apply. This case squarely presents facts that test the correctness of both of these exceptions to patent exhaustion.

At bottom, this case is not about specialized technical questions of patent doctrine, despite the specialist patent court's desire to make it so. This case is about the fundamental and traditional notions of personal property ownership. It is about whether vendors of goods may entangle, subdivide, and diminish those traditional ownership rights through devices of law, through encumbrances that run with chattels. This Court and others, for centuries, have disapproved such attempts to cut off the rights and liberties of owners and to stifle the free market. Nothing different should obtain with patent law. In this the Federal Circuit has erred, and certiorari should be granted to correct that critical error.

ARGUMENT

According to the doctrine of patent exhaustion, "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008); *accord United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942). Yet in the present case, the Court of Appeals affirmed two of its older precedents permitting exceptions to the doctrine: first, that a "conditional sale" overcomes exhaustion, *see Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992); and second, that a foreign sale circumvents exhaustion, *see Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001). These exceptions to the exhaustion doctrine are incorrect and greatly damaging to the public interest for at least the following reasons.

I. THE FEDERAL CIRCUIT'S DECISION IS AN OUTLIER IN A CENTURIES-LONG TRADITION OF THE EXHAUSTIVE NATURE OF SALES OF GOODS

An increasingly common phenomenon at the Federal Circuit,[2] the rules of law announced in this case are lone patent-doctrine outliers divorced from a long history of law. Courts have consistently held that manufacturers and sellers of goods may not control use or resale of those goods once they become the personal property of buyers. That tradition ranges from early English law, to American state laws on personal property, to even recent decisions on other intellectual property regimes. This Court

[2] *Cf. Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843 (2014) (rejecting patent-specific declaratory judgment burden-shifting rule); *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (rejecting patent-specific injunction rule).

should grant certiorari to reverse the Federal Circuit's "patent exceptionalism," permitting sellers to do what numerous other areas of law prohibit.

A. For Four Centuries, Courts Have Rejected Post-Sale Restrictions that Run with Personal Property

As Justice Breyer wrote recently, the principle that sale of a good exhausts the seller of rights of control over the good is a principle of "impeccable historical pedigree." *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013). That principle derives from English common law four centuries old, and it has been widely embraced by American state law of personal property.

Perhaps the best known rejection of post-sale restraints was that of Sir Edward Coke, Lord Chief Justice,[3] who wrote that such restraints are void because they unnecessarily impinge on the free exchange of goods. Specifically, he found such restraints to be "against Trade and Traffique, and bargaining and contracting between man and man: and it is within the reason of our Author that [the initial sale] should ouster him of all power given to him." 1 Edward Coke, *Institutes of the Lawes of England* § 360, at 223 (1628).

Venerable doctrines of common law frown upon post-sale restrictions. The rule against perpetuities, the rule in *Shelley's case*, and the general common law rules

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[3]According to English practice, Edward Coke held the title of "Lord" only while on the bench, and accordingly would properly be styled "Sir Edward Coke" at the time of publication of his treatise. But American jurisprudence has conventionally used the appellation "Lord Coke," and so that convention is followed subsequently in this brief.

against restraints on alienation of real property all reflect a general aversion of the law toward attempts by property sellers to maintain a dead hand of control after the sale. *See* George L. Haskins, *Extending the Grasp of the Dead Hand: Reflections on the Origins of the Rule Against Perpetuities*, 126 U. Pa. L. Rev. 19, 20, 31 n.40 (1977). Also illustrative is the English case *Taddy & Co. v. Sterious & Co.*, in which a tobacco manufacturer tried to set minimum retail prices for its products. *See* [1904] 1 Ch. 354, 357–58 (1903) (U.K.), *available at* URL *supra* p. vi. The High Court rejected that attempt, holding that "[c]onditions of this kind do not run with goods, and cannot be imposed upon them. Subsequent purchasers, therefore, do not take subject to any conditions which the Court can enforce." *Id.* at 358.

American courts followed in this tradition of refusing to enforce post-sale conditions as running with the goods sold. *John D. Park & Sons Co. v. Hartman*, in rejecting a minimum resale price restriction, explained:

> It is also a general rule of the common law that a contract restricting the use or controlling subsales cannot be annexed to a chattel so as to follow the article and obligate the subpurchaser by operation of notice. A covenant which may be valid and run with land will not run with or attach itself to a mere chattel.

153 F. 24, 39 (6th Cir. 1907); *see also Dr. Miles Med. Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 404 (1911) ("Thus, a general restraint upon alienation is ordinarily invalid."); *Garst v. Hall & Lyon Co.*, 61 N.E. 219, 219 (Mass. 1901) ("The purchaser from a purchaser has an absolute right to dispose of the property."); *W.H. Hill Co. v. Gray &*

Worcester, 127 N.W. 803, 807 (Mich. 1910) ("[R]estraints upon alienation have been generally regarded as obnoxious to public policy.").

Post-sale restraints on use and alienability of property have thus been "greeted with judicial hostility" by common law courts over the span of four centuries. Molly Shaffer Van Houweling, *The New Servitudes*, 96 Geo. L.J. 885, 888 (2007). The Federal Circuit's welcoming of such restraints through exceptions to the patent exhaustion doctrine thus directly conflict with this common law tradition.

B. Courts Refuse to Use Intellectual Property Doctrine to Enforce Post-Sale Restraints

Perhaps intellectual property rights might have offered a different path for enforcement of post-sale restraints, but the case law proves otherwise, with courts applying the same principles of unfettered ownership rights over physical goods even when those goods are covered by intellectual property. Thus, the Federal Circuit's exception-ridden conception of patent exhaustion is an outlier not just among legal doctrines generally, but also among intellectual property laws specifically.

1. The copyright first sale doctrine is a direct corollary to the common law rejection of post-sale restraints. In an early statement of that doctrine, this Court echoed the personal property law cases cited above when stating that "one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it." *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908); *see* 17 U.S.C. § 109(a) (codifying first sale doctrine). This Court's more recent statement of the first sale doctrine

in *Kirtsaeng* specifically quotes Lord Coke on "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods." 133 S. Ct. at 1363. Thus, the first sale doctrine of copyright is inextricably tied with the common law view against post-sale restraints. *See* Van Houweling, *supra*, at 910–11.

The copyright first sale doctrine demonstrates that courts do not treat owner rights in physical goods any differently even when those physical goods are covered by intellectual property rights. While the right to make new items does not fall under traditional bundle of property rights and thus is subject to intellectual property enforcement, *cf. Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013), the right to use and resell the physical item bought and owned cannot be attenuated, through copyright or otherwise.

Indeed, courts have refused to enforce copyright-based post-sale conditions on personal property, even where violation of the conditions requires violation of the exclusive right of copying that is squarely within the scope of copyright infringement. Manufacturers sometimes embed "lock-out codes" in product components (such as toner cartridges). When those components are installed into the main product (such as a laser printer) the main product queries the components for the lock-out code, and the product will refuse to operate absent a correct code. *See* Julie E. Cohen, *Reverse Engineering and the Rise of Electronic Vigilantism: Intellectual Property Implications of "Lock-Out" Programs*, 68 S. Cal. L. Rev. 1091, 1094–95 (1995).

Third-party makers of compatible components then install the lock-out code in their components to ensure

that the main product will operate, and in several cases the original manufacturer has sued those third-party component makers on the theory that the lock-out code is copyrighted. *See id.* at 1095.

This copyright infringement theory has been uniformly rejected as an improper application of copyright law to stop consumer choice in physical goods. *See Lexmark Int'l, Inc. v. Static Control Components, Inc.* ("*Static Control*"), 387 F.3d 522, 536 (6th Cir. 2004) (code sequence required to operate product held uncopyrightable); *see also Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1524 & n.7 (9th Cir. 1992) (incorporation of unlocking code into came console cartridge deemed fair use); *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832, 840 (Fed. Cir. 1992) (no clear error in district court's conclusion that "the generation of a data stream to unlock a console" was unprotectable idea or process).[4] The purpose of copyright is to promote creation, not to crush competition in consumer goods, and courts have refused to permit copyright to be used to such ends.

2. Courts refuse to enforce post-sale restraints on goods under a second intellectual property doctrine. The anti-circumvention provisions of § 1201 of the Digital Millennium Copyright Act (DMCA) generally proscribe attempts to circumvent effective technological measures that protect access to copyrighted works, and courts have repeatedly said that those proscriptions are not to be used purely for exerting future control over goods absent a substantial intellectual property interest nexus.

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[4]While *Atari* ultimately found that copyright infringement had occurred, the infringement was copying of computer code that *generated* the unlocking code, not copying of the unlocking code itself, and the Court found that there were multiple ways that the computer code could have been implemented. *See* 975 F.2d at 840.

In *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, a garage door opener manufacturer claimed that a maker of competing and compatible garage opener transmitters had violated § 1201 because the competing transmitters had circumvented a technological measure, namely an encrypted garage door opening signal. *See* 381 F.3d 1178, 1185 (Fed. Cir. 2004). But *Chamberlain* rejected this § 1201 theory, because the manufacturer had failed to show injury to underlying intellectual property rights, and rather asserted § 1201 purely to prevent competition in its consumer products. *See id.* at 1201.

The Court of Appeals refused to read that statute to allow a manufacturer "to restrict consumers' rights to use its products in conjunction with competing products." *Id.* To hold otherwise "would allow virtually any company to attempt to leverage its sales into aftermarket monopolies—a practice that both the antitrust laws and the doctrine of copyright misuse normally prohibit." *Id.* (citations omitted). *Chamberlain* thus held that intellectual property protection could not be wielded as a sword to cut off consumer aftermarket decisions.

Other decisions are in accord, refusing to enforce what would amount to contractual breaches as violations of § 1201. *See, e.g., Storage Tech. Corp. v. Custom Hardware Eng'g & Consulting, Inc.*, 421 F.3d 1307, 1319 (Fed. Cir. 2005) (misuse of software may violate contractual rights, "but those rights are not the rights protected by copyright law"); *Static Control*, 387 F.3d at 546–47 (refusing to find a violation of § 1201 where a computer chip manufacturer circumvented technological protection measures in order to refill printer ink cartridges).

Accordingly, with respect to both copyright law and § 1201 of the DMCA, courts consistently refuse to let

intellectual property law transmogrify into a post-sale lever of control over consumer products. This Court should similarly refuse to turn patent law into such an undue and anticompetitive mechanism for manufacturers.

C. Patent Exhaustion Has Adhered to This Long Tradition of Precedent—Until the Federal Circuit

Given this weight of precedent of both common law and intellectual property law disfavoring post-sale restraints on ownership rights, it is unsurprising that this Court has consistently held that patent law too may not be used to enforce such restraints. It is only when the Federal Circuit began developing doctrine that the general principles of ownership rights were breached.

In one of the earliest cases to enunciate the patent exhaustion doctrine, *Adams v. Burke* refused to enforce a territorial restriction on a purchaser of patented coffin lids. 84 U.S. (17 Wall.) 453, 458–59 (1873). Once the patentee has sold a patented article to a purchaser, said this Court, the article "is open to the use of the purchaser without further restriction on account of the monopoly of the patentees." *Id.* at 456.

Keeler v. Standard Folding Bed Co. similarly found it "obvious that a purchaser can use the article" and "can sell or dispose of the same," 157 U.S. 659, 661 (1895), finding that "[t]he inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration," *id.* at 667. *See also Bauer & Cie v. O'Donnell*, 229 U.S. 1, 17 (1913); *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917). Although *Henry v. A.B. Dick Co.* did suggest that a condition upon sale of a patented article could avoid exhaustion, *see* 224

U.S. 1, 24–25 (1912), this Court quickly corrected that misstep, overruling *A.B. Dick* in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917). Restraints on the use or resale of personal property were not enforcible, even through the device of patent law.

This Court's precedents thus "reflect a special skepticism about chattel servitudes that applies even when the chattel at issue embodies an intangible work subject to intellectual property protection." Van Houweling, *supra*, at 914. It was nothing less than patent exceptionalism for the Federal Circuit, decades later and in the face of these controlling precedents, to reverse course and suggest that patent law can admit exceptions to the exhaustion doctrine that enable exactly those chattel servitudes. Certiorari should be granted to eliminate this discrepancy between patent doctrine and all other law.

II. The Decision Below Impairs Strong Consumer and Free Market Interests

If allowed to stand, the Federal Circuit's twin holdings in this case will provide a roadmap for how companies can use patent law to avoid exhaustion. While other areas of the law—such as copyright's first sale and the anti-circumvention jurisprudence discussed above—provide for a robust exhaustion doctrine, the Federal Circuit has allowed patent law to become a marked outlier. This will push companies toward patent law as the best tool to frustrate consumer autonomy and market competition.

The exhaustion issues raised by this case are even more significant because patent law has a growing impact on the market for standard consumer goods. In recent

years, the USPTO has granted increasingly large numbers of software patents. *See* James Bessen, *A Generation of Software Patents*, 18 B.U. J. Sci. & Tech. L. 241, 252–53 (2009). During the same period, more and more consumer goods are shipped with embedded software—common goods like refrigerators, blenders, thermostats, and cars. *See* Dave Evans, Cisco Internet Bus. Solutions Group, *The Internet of Things: How the Next Evolution of the Internet Is Changing Everything* 3 (2011), URL *supra* p. vii (estimating that 50 billion devices will be connected to the Internet by 2020). Standard consumer goods that were, until recently, likely to be protected by few if any patents may now implicate numerous software patents. The Federal Circuit's holding, left unchecked, will thus provide a staggering range of companies with the power to end-run around the protections of the exhaustion doctrine.

A. Weakening Patent Exhaustion Will Harm Competition and Consumers

Patent exhaustion advances full ownership rights for consumers and promotes market competition. Specifically, exhaustion reduces information costs in buying and selling goods, protects competition in the market for service and repair of goods, and avoids monopolistic pricing behaviors.

1. The Federal Circuit's cramped view of patent exhaustion imperils vibrant secondary markets. A purchaser of a product will not always know whether any patentee has placed a post-sale restriction on the product that impairs the purchaser's right to use or later alienate that product. If that restriction is enforceable through patent law, then second, third, and further purchasers

are all substantially burdened with the administrative cost of inquiring about such restrictions, or risking infringement liability absent such inquiry or in the event of a mistaken assessment. *See Kirtsaeng*, 133 S. Ct. at 1363; Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. Rev. 889, 896–97 (2011). Indeed, the complexity and remoteness of post-sale restrictions presents an unnecessary layer of information asymmetry upon even the initial purchaser of the encumbered product. *See* Van Houweling, *supra*, at 921.

In part by eliminating those unnecessary administrative costs on purchasers, patent exhaustion allows for consumer-beneficial secondary markets. Companies like eBay and Craigslist offer consumers highly efficient secondary markets for an unprecedented variety of goods. Other secondary markets are supported by intermediaries ranging from specialized resellers and refurbishers, to general second-hand stores such as Goodwill. *See* Kyle Wiens, *One Way to Create American Jobs: Fix Our 5 Million Tons of Out-of-Use Electronics*, The Atlantic (Oct. 31, 2012), URL *supra* p. ix.

Secondary markets offer numerous social and economic benefits to consumers, such as placing lower-cost used goods on the market, allowing purchasers to recoup some of their purchase cost at market rates, and protecting the environment by enabling reuse and recycling. *See* Zachariah Chafee, *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250, 1261 (1956) (describing "policy in favor of mobility" long embraced by personal property law). Without the patent exhaustion doctrine, however, manufacturers would be free to terminate secondary markets by mere conditions upon sale.

2. The Federal Circuit's holdings in this case also threaten competition within the repair market. This Court's precedents have long held that repair activities short of reconstruction fall outside the scope of the patent right. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 342–43 (1961). The Federal Circuit's holdings on exhaustion jeopardize independent product refurbishers and repair services, who could now find themselves liable for patent infringement for performing what ought to be lawful repair activity.

A thriving independent repair market creates many benefits. As anyone who has ever sought automotive repair services is well aware, consumers are better off with a wide array of competing providers of post-sale service and repair. Indeed, a recent study suggested that consumers can cut their car repair bills by an average of about $300 a year, or 25%, by going independent. *See* Jonathan Welsh, *Is the Dealer Better Than an Independent Mechanic?*, Wall St. J. (May 17, 2010), URL *supra* p. ix. The repair industry also supports local employment and helps reduce electronic waste. *See* Jenna Wortham, *How to Fix Your iPhone (the Unofficial Edition)*, N.Y. Times, Apr. 14, 2010, at B9, *available at* URL *supra* p. ix; Victor Luckerson, *We've Spent Almost $6 Billion on iPhone Repairs Since 2007*, TIME.com (Sept. 20, 2012), URL *supra* p. viii.

3. Additionally, the Federal Circuit's decision encourages inefficient forms of price discrimination that will harm consumers. Many, perhaps most, post-sale use restrictions imposed by patent holders will be designed to facilitate price discrimination. Field-of-use and single-use restrictions, for example, are often used to charge different prices to different groups of customers, while

preventing them from engaging in arbitrage. *See* Mark R. Patterson, *Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing*, 49 Wm. & Mary L. Rev. 157, 159–60 (2007). Similarly, Lexmark had the opportunity to receive full and just compensation for its sales outside the United States and its attempt to get a second bite at the patent royalty apple upon importation of the sold product is a consumer-detrimental attempt at price discrimination.

All patents grant some power to price discriminate. But patent exhaustion has always served as a check on that power, and the Federal Circuit's diminishing of exhaustion permits an unwarranted expansion of that price discrimination power. Besides representing a pure windfall to manufacturers at the expense of consumer dollars, price discrimination can be the basis of anticompetitive acts, as antitrust laws recognize. *See* Robinson-Patman Price Discrimination Act, 15 U.S.C. § 13 (2012); *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 219–20 (1993). At the very least, given the world-wide impact of the Federal Circuit's holdings, the case warrants certiorari so that this Court can carefully consider these issues.

B. Patent Exhaustion Protects Fundamental Speech, Autonomy, and Privacy Rights of Purchasers

Product manufacturers have routinely attempted to expand their rights under intellectual property law to restrict the spread of information about their products and to prevent customers from using their devices in new and useful ways. The Court should ensure that patent law does not provide a roadmap to legitimize such practices.

If patent owners can attach conditions to the sale of patented products, manufacturers will likely use this option to widely prohibit lawful activities such as reverse engineering and adaptation of mass-market devices and software. Manufacturers like Lexmark have attempted to impose a variety of post-sale restrictions on the use of their products.

Contracts of adhesion such as "Terms of Use" or "End User License Agreements" illustrate the "wish list" of sellers. These "agreements" regularly disallow product owners to:

- Discuss "any performance or functional evaluation" of the product without manufacturer approval. Nest End User License Agreement *infra* p. 1a.

- Reverse engineer, for example to research functional elements or to create interoperable software and hardware. *See* Apple WatchOS Software License Agreement *infra* p. 3a.

- "[T]ransfer, assign, or sublicense [their] license rights to any other person or entity," that is, resell second-hand. *See* Cisco End User License Agreement *infra* p. 4a.

- Use non-approved software or hardware in conjunction with the device, such as third-party hardware competing with the seller's own peripherals, or privacy-protecting software. *See* Cory Doctorow, *Windows 10 EULA: Microsoft Can Killswitch Your Unauthorized Hardware and Pirate Games*, Boing Boing (Aug. 20, 2015), URL *supra* p. vii; Pulser_G2, *Protecting Your Privacy: App Ops, Privacy Guard,*

and XPrivacy, xda-developers (June 11, 2014), URL *supra* p. viii.

- Refuse future changes to the terms of service—in one case, the manufacturer disabled further operation of devices until the user agreed to amended terms. *See* Kit Walsh, *Nintendo Updates Take Wii U Hostage Until You "Agree" to New Legal Terms*, Electronic Frontier Found. (Oct. 13, 2014), URL *supra* p. ix.

- Modify software on the device, even in ways that infringe no intellectual property right. *See* Fitbit Terms of Service *infra* p. 5a.

- Lawfully circumvent technological protection measures restricting access to copyrighted works (such as circumvention for accessibility or interoperability). *See* Playstation Software License Agreement *infra* p. 7a.

These important activities are all otherwise lawful, but are likely targets if this Court were to leave intact the Federal Circuit's grant to patent holders of a mechanism to strip customers of their rights via the conditional sale of patented goods.

Reverse engineering is essential for device owners and consumer protection watchdogs who want to determine whether devices are trustworthy. Reverse engineering has investigated important product safety and consumer rights issues, such as security of insulin pumps, unsolicited data collection by smart TVs, fabrication of car emissions test results, and life-threatening defects in car acceleration. *See* Tammy Leitner & Lisa Capitanini, *Medical Devices Vulnerable to Hack Attacks*, NBC Chi.

(Sept. 29, 2014), URL *supra* p. viii; Javier E. David, *Shhh, Not in Front of the TV! Samsung May Be Eavesdropping on You*, CNBC (Feb. 8, 2015), URL *supra* p. vii; Karl Russell et al., *How Volkswagen Is Grappling with Its Diesel Deception*, N.Y. Times (Mar. 24, 2016), URL *supra* p. ix; Brian Ross et al., *Toyota to Pay $1.2B for Hiding Deadly "Unintended Acceleration"*, ABC News (Mar. 19, 2014), URL *supra* p. viii.

Similarly, customers often wish to customize and improve upon the software and hardware components of their devices. This includes patching security vulnerabilities, blocking invasive collection of personal data, installing new software, or attaching new hardware (such as sensors, additional memory, or more durable components). These practices are lawful by virtue of exhaustion and related doctrines, such as copyright law's fair use and rights recognized by 17 U.S.C. § 117 (adaptation of computer programs) and § 1201(f)–(j) (exemptions to ban on circumvention).

Product sellers understandably want to control the information available about their products and to maximize profit by controlling customers' behavior, but the law of intellectual property wisely has not given them such control. Indeed, it would be inconsistent with free speech ideals and the goals of intellectual property law to grant sellers the power to restrict speech about such facts and ideas. Beyond the speech considerations, ordinary people would risk losing the autonomy to audit and control their personal property to make it serve them rather than acting as a continuing agent for the seller after sale.

Certainly manufacturers may use contracts to bind consumers with whom they have privity, up to the ordinary limits of contract law (but no further, *see, e.g.*,

Phila. Indem. Ins. Co. v. Barerra, 21 P.3d 395, 402 (Ariz. 2001) (unconscionability and reasonable expectation doctrines); *Perricone v. Perricone*, 972 A.2d 666, 682–83 (Conn. 2009) (public policy limits in contractual waiver of speech rights)). But contract limits do not run with the property; they do not bind successive owners. Contracts thus do not present the competition and consumer harms presented by an unshakable post-sale condition tied to the physical article.

The law should not grant patent-owning sellers a legal vehicle to unilaterally override the rights of purchasers. The Court should grant certiorari so that the judgment of the Federal Circuit can be reversed.

III. This Case Squarely Presents Two Questions on Patent Exhaustion, Both Worthy of This Court's Review

The dissonance between the Federal Circuit's decision and the aforementioned precedents and concerns is eminently reviewable in the present case. The underlying facts squarely present two areas in which the Federal Circuit has erroneously limited the doctrine of patent exhaustion. Those questions presented both precisely test all of the problems of law and policy identified in this brief. A grant of certiorari would be highly appropriate.

A limited set of facts is sufficient to be determinative of this case, as the parties have already agreed. Pet. Cert. 9a. Respondent Lexmark International, Inc. is a manufacturer of printers and accompanying toner cartridges used in those printers, selling those cartridges to consumers. *Id.* at 9–10a. Petitioner Impression Products, Inc. acquired from consumers certain toner cartridges,

lawfully manufactured and sold by Lexmark, and Impression refilled and resold those cartridges. *Id.* at 10a.

Lexmark owns patents on its toner cartridges[5] and contends that Impression infringes based on the remanufactured cartridges. Ordinarily, because the cartridges were originally sold by Lexmark, the doctrine of patent exhaustion would apply, and no infringement cause of action would lie. So Lexmark relies on two exceptions to the patent exhaustion doctrine that the Federal Circuit has created, each of which corresponds to one of the questions presented.

First, Lexmark sold the printer toner cartridges to consumers under a restriction that the buyer may not resell the cartridge to anyone other than Lexmark. *Id.* at 10–11a. That raises the first question presented, namely whether a conditional sale with post-sale restrictions can circumvent the patent exhaustion doctrine, thereby allowing Lexmark to proceed with its patent infringement claim. *Id.* at 10a. Second, Lexmark sold some of the toner cartridges abroad, and Impression acquired them for resale in the United States. This raises the second question of whether an authorized sale of a patent article will fail to invoke the patent exhaustion doctrine if the article is sold outside the United States.

The success of Lexmark's patent infringement case thus turns directly on whether or not there should exist these two exceptions to the patent exhaustion doctrine, both invented by the Federal Circuit. The questions presented in Impression's petition squarely ask whether those two exceptions should exist.

---

[5]The patents are apparently so inconsequential to this case that neither the Federal Circuit's opinion nor Impression's petition identifies the relevant patent numbers.

And it is these two exceptions to patent exhaustion that give rise to the serious problems described in this brief. It is the circumventability of the patent exhaustion doctrine, through post-sale restrictions or out-of-country sales, that is at odds with the long history of law refusing conditions and servitudes on sales of goods. And it is that circumventability that impinges on the consumer interest, on individual liberties to use and enjoy personal property, and on the free market in secondhand goods.

The time is ripe to address these twin errors of the Federal Circuit that fundamentally undermine the important doctrine of patent exhaustion. This Court should grant certiorari.

CONCLUSION

For the foregoing reasons, this Court should grant the petition for a writ of certiorari.

Respectfully submitted,

CHARLES DUAN
Counsel of Record
DALLAS HARRIS
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
(202) 861-0020
cduan@publicknowledge.org

DANIEL NAZER
KIT WALSH
ELECTRONIC FRONTIER FOUNDATION
815 Eddy Street
San Francisco, CA 94109
(415) 436-9333

Counsel for amici curiae

April 2016

APPENDIX A
EXAMPLE END USER LICENSE AGREEMENTS

The following are excerpts from certain end-user license agreements obtained on the Internet on April 18, 2016.

NEST END USER LICENSE AGREEMENT

https://nest.com/legal/eula/

* * *

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* * *

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SONY PLAYSTATION 4 SYSTEM SOFTWARE LICENSE AGREEMENT (VERSION 1.1)

http://doc.dl.playstation.net/doc/ps4-eula/ps4_eula_en.html

* * *

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RECORD AND BRIEFS

No. 15-1189

In The

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* SANDISK CORPORATION IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

STEVEN A. HIRSCH
COUNSEL OF RECORD
KEKER & VAN NEST, LLP
633 Battery Street
San Francisco, CA 94111
Email: SHirsch@kvn.com
(415) 391-5400

Counsel for Amicus Curiae SanDisk Corporation

April 21, 2016

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INTEREST OF *AMICUS CURIAE*[1]

This brief supports the position of Petitioner Impression Products, Inc. on Question Two posed in the Petition for Writ of Certiorari:

> Whether, in light of this Court's holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.[2]

Amicus curiae SanDisk Corporation is a Fortune 500 company, headquartered in Silicon Valley. It is one of the largest manufacturers of flash memory in the world. Its products are used in data centers and consumer products such as smartphones, tablets, cameras, and laptops. A global

---

[1] The Petitioner has consented to the filing of this brief. The Respondent has lodged a letter of consent with the Clerk of the Court in accordance with Supreme Court Rule 37.2(a). The parties were given ten days' notice prior to the filing of this brief, as required by Supreme Court Rule 37.3(a). Pursuant to Supreme Court Rule 37.6, no counsel for any party has authored this brief in whole or in part, and no person or entity, other than *amicus* and their counsel, made a monetary contribution intended to fund the preparation or submission of this brief.

[2] Petition ("Pet.") at i.

company, SanDisk has more than 8,600 employees worldwide; manufacturing facilities in China, Japan and Malaysia; and facilities for sales, operations, administration, and research and development in countries ranging from Germany to the United Arab Emirates.[3] Its products are available at 300,000 retail stores in more than 100 countries. SanDisk holds more than 5,000 patents worldwide, with issued patents in the United States and more than twenty other countries.

SanDisk is directly interested in the development of the law on international patent exhaustion. SanDisk produces and purchases overseas electronic components that are integrated into downstream products sold in the United States. SanDisk therefore has a very strong interest in ensuring that the end products are not encumbered by thousands of competing patent claims. The patent-exhaustion doctrine effectively frees product components of patent rights after the first authorized sale, enabling more complex products to be made and sold free of overlapping patent rights. The doctrine is therefore critical to the success of global technology manufacturers like SanDisk.

For reasons set forth below, SanDisk believes that the *Jazz Photo* rule undermines the important purposes of the exhaustion doctrine and that, in

---

[3] SanDisk maintains facilities for sales, operations, administration, and research and development in the United States, China, France, Germany, India, Ireland, Israel, Japan, Korea, Russia, Scotland, Singapore, Spain, Sweden, Taiwan, and the United Arab Emirates.

light of *Kirtsaeng*, this Court should overrule *Jazz Photo* to the extent that it held that a sale of a patented item outside the United States never gives rise to United States patent exhaustion.

SUMMARY OF ARGUMENT

Joined by amicus, the petitioner in this case asks this Court to clarify the scope of the "longstanding doctrine of patent exhaustion," also known as the first-sale doctrine, which dictates that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc. v. LG Elec., Inc.*, 553 U.S. 617, 625 (2008).

Recently, in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), this Court held in the copyright context that geography has no impact on exhaustion, *id.* at 1358—i.e., that exhaustion does not depend upon whether the authorized first sale occurs in the United States or abroad. *Id.* at 1372 (Kagan, *J.*, concurring). But the Federal Circuit has now reached the opposite conclusion in the patent context, holding that a patentee's authorized first sale does not exhaust the patentee's patent rights unless the first sale occurs within the United States.

Amicus believe that three factors counsel strongly in favor of granting the Petition.

First, the Petition demonstrates that the Federal Circuit has again adopted, without express Congressional authorization, a special patent doctrine that departs from familiar and generally applicable legal principles.

This Court has instructed the Federal Circuit that where "[n]othing in the Patent Act indicates that Congress intended . . . a departure," familiar legal principles should "apply with equal force to

disputes arising under the Patent Act." *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 391–92 (2006). In *Kirtsaeng*, the Court inquired into the common-law understanding of the first-sale doctrine. It found that familiar legal principles against restraints on alienation dictated that under the common law, geography should have no impact on exhaustion. *Kirtsaeng*, 133 S. Ct. at 1363. The Court then ruled in interpreting the Copyright Act's codification of the first-sale doctrine that no contrary requirement of statutory interpretation dictated a departure from the common-law understanding of the first-sale doctrine.

But the Federal Circuit sitting *en banc* in *Lexmark* found just the opposite—that familiar legal principles against restraints on alienation undergirding the first-sale doctrine do *not* apply in the patent context. In the face of these principles, the Federal Circuit distinguished *Kirtsaeng* as solely an interpretation of the language of § 109(a) of the Copyright Act. The Federal Circuit therefore found the lack of comparable statutory language in the Patent Act to be sufficient reason to ignore *Kirtsaeng*'s interpretation of common law. But the court failed to point to any language in the Patent Act indicating that Congress intended a departure from the common-law understanding of the first-sale doctrine.

Second, the holding in *Lexmark* is founded upon a "U.S. market reward" rationale that lacks support in economic logic or legal authority.

As its rationale for rejecting international patent exhaustion, the Federal Circuit held that the Patent

Act ensures a patentee the right to receive a "U.S. market reward"—a reward that the Federal Circuit assumes can be fulfilled only if the patentee is guaranteed the right to profit from at least one sale of every patented article inside the geographic United States. *See* Pet. at 76a–78a.

But the Federal Circuit failed to recognize that a patentee obtains its "U.S. market reward" whenever a product is sold abroad for a higher price reflecting the *expectation* that it will be incorporated into a downstream product sold in the United States. The *Lexmark* rule therefore may result in overcompensation of patentees who effectively collect their monopoly price twice, in violation of long-established patent law and policy. The same is true where foreign sales are made pursuant to an unconditional worldwide license in which each party presumably received its market reward when it agreed to the license terms.

Third, *Lexmark*'s geographical limitation on the exhaustion doctrine undermines policies critical to the functioning of a free and innovative economy. It unnecessarily increases the administrative burdens on technology companies that create complex products incorporating patented component parts imported from abroad. It also reduces the general welfare of the American consumer by raising the prices of technological and pharmaceutical products. And it enforces restraints on alienation that may persist through years and multiple transactions.

ARGUMENT

I. Review is necessary to ensure that patent law remains consistent with familiar legal principles that govern in other contexts.

As in *eBay v. MercExchange*, the Court should grant review to clarify that a patent-specific rule unsupported by statutory language cannot stand when in tension with the requirements of familiar legal principles that govern in other comparable disputes.

Where nothing in the Patent Act requires a departure from familiar principles, those principles govern with as much force as in any other type of controversy. *eBay*, 547 U.S. at 391–92; *see also Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2254 (2011) (Thomas, *J.*, concurring) (stating that where the Patent Act "is silent," "it did not alter the common-law rule.").

In *eBay v. MercExchange*, this Court considered whether a federal court—in determining whether to award permanent injunctive relief to a prevailing plaintiff in a patent dispute—should employ a patent-specific rule or the four-factor test prevalent in other contexts. The patent-specific rule provided that "courts will issue permanent injunctions against patent infringement absent exceptional circumstances." *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). The familiar four-factor test prevalent in other contexts, including copyright cases, required a plaintiff to demonstrate, *inter alia*,

"that remedies available at law, such as monetary damages, are inadequate."[4] *eBay*, 571 U.S. at 391.

This Court overruled *eBay*'s novel approach, observing that "[n]othing in the Patent Act indicates that Congress intended . . . a departure" from the traditional four-factor test. *eBay*, 547 U.S. at 391–92. The Court further noted that applying the traditional four-factor test "is consistent with our treatment of injunctions under the Copyright Act." *Id.* at 392. The Court reasoned that, in the absence of contrary statutory language, "familiar principles"—such as those applicable in the Copyright context—"apply with equal force to disputes arising under the Patent Act." *Id.* at 391.

eBay was merely one of several recent cases in which this Court has disapproved novel doctrinal creations in the patent field. For instance, in *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007), this Court struck down the Federal Circuit's teaching, suggestion, or motivation test ("TSM test") for obviousness,[5] in favor of a more "expansive and flexible"

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[4] "A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." *eBay*, 571 U.S. at 391.

[5] Under the TSM test, a patent claim is only obvious if "'some motivation or suggestion to combine the prior art teachings' can be found in the prior art, the nature of the problem, or the

approach found in prior Supreme Court precedent. *Id.* at 415. Similarly, in *Octane Fitness*, this Court disapproved a "rigid" standard[6] for determining when a patent case is "exceptional," thus warranting fee-shifting, under 35 U.S.C. § 285. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). In doing so, this Court noted that its holding rendered patent law consistent with "the comparable context of the Copyright Act." *Id.* at 1756.

Like *eBay*, *KSR*, and *Octane Fitness*, this case presents a clash between a patent-specific rule and a familiar legal rule prevalent in another context (copyright law). Only three years ago, this Court confirmed in *Kirtsaeng* that under the first-sale doctrine, as codified in the § 109 of the Copyright Act, 17 U.S.C. § 109, sales outside the United States exhaust copyrights. *Kirtsaeng*, 133 S. Ct. at 1365, 1371; *see also Quality King Distrib., Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135, 145 n. 14 (1998) ("[T]he owner of goods lawfully made under the [Copyright] Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad."). But

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knowledge of a person having ordinary skill in the art." *Id.* at 407.

[6] "[A] case is 'exceptional' under § 285 only 'when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions.'" *Id.* at 1754 (quoting *Brooks Furniture Mfg., Inc. v. Dutailer Int'l, Inc.*, 393 F.3d 1378 (2008)).

Lexmark nevertheless held that a first sale outside the United States does not exhaust patent rights.

In reaching its patent-specific holding, the Federal Circuit attempted to distinguish *Kirtsaeng* as purely an exercise in statutory interpretation, inapplicable to patent law. But *Kirtsaeng*'s statutory holding was both informed by and consistent with its understanding of the first-sale common-law doctrine, which is broadly applicable to *all* property. This Court reasoned as follows.

1. *Kirstaeng* teaches that the first-sale doctrine originated in the common law. *Id.* at 1363. English common law reflected the longstanding English policy against restraints on the alienation of chattels. *Id.* Consistent with this longstanding policy, the first-sale doctrine "frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily moveable goods." *Id.*

2. The Copyright Act codified the common-law first-sale doctrine. And "[w]hen a statute covers an issue previously governed by the common law," the Court "must presume that Congress intended to retain the substance of the common law." *Id.* (internal quotation marks omitted). An analysis of the substance of the common law led the Court to conclude that the first-sale doctrine "makes no geographical distinctions." *Id.*

3. The Court found "no [statutory] language, context, purpose, or history" in the Copyright Act "that would rebut a 'straightforward application' of [the common-law first-sale] doctrine." *Id.* at 1364.

These conclusions bear directly on *Lexmark*. First, consistent with its common-law origins, the purpose of the first-sale doctrine in patent law is to prevent restraints on the alienation of chattels. And "[s]ince patents are privileges restrictive of a free economy, the rights which Congress has attached to them must be strictly construed . . . ." *United States v. Masonite Corp.*, 316 U.S. 265, 280 (1942).

Second, although the Copyright Act, unlike the Patent Act, has not codified the first-sale doctrine, that distinction presents an *a fortiori* case for adhering to familiar legal principles grounded in common law. Where Congress has not codified the underlying patent-exhaustion rule, there is simply no authority at all—in text, or its associated context, purpose, or legislative history—that rebuts a straightforward application of the common law. Thus, in the face of Congressional silence as to the scope of the first-sale doctrine, *Kirtsaeng*'s common-law determination that the first-sale doctrine "makes no geographical distinctions" should control. *Kirtsaeng*, 133 S. Ct. at 1363. The logic of *Kirtsaeng* thus suggests that patent rights, like copyrights, are exhausted by a first sale abroad.

II. The Federal Circuit's emphasis on a "U.S. market reward" will result in the overcompensation of patentees.

The Federal Circuit's *en banc* opinion reasoned that the Patent Act "gives patentees the reward available from American markets." Pet. at 76a. The opinion concluded that "[a] patentee cannot reasonably be treated as receiving that reward from sales in foreign markets," *id.*, and that international patent exhaustion therefore contravenes the Patent Act.

The Federal Circuit reasoned that the Patent Act "expressly provides to a U.S. patentee" "the reward available from the right to exclude 'in the United States.'" *Id.* at 76a (citing 35 U.S.C. §§ 154(a)(1), 271(a). This reward is characterized as a market reward; and the Federal Circuit declared without citation that "the market reward, under the statute, is explicitly the reward available from American markets subject to American laws, a reward obtained by selling or authorizing sales in those markets." *Id.* at 77a. The Federal Circuit elaborated on the difference between American markets and international markets—in regulation, disparities in wealth, and patent protection—concluding that "[t]he guarantee [which serves as the basis for exhaustion] is the reward from sales in American markets, not from sales in foreign markets." *Id.* at 78a.

The Federal Circuit's approach is likely to result in the overcompensation of patentees. In a competitive marketplace where sellers price discriminate, the prices of patented products reflect the value of the product's ultimate expected use. *See generally*

Jean Tirole, THE THEORY OF INDUSTRIAL ORGANIZATION 133, 135 (1988) ("[T]he producer may observe some signal that is related to the consumer's preferences (e.g., . . . location) and use this signal to price discriminate . . . ."). Thus, a patentee may receive a "U.S. market reward" simply by virtue of the fact that a product first sold abroad is *expected* to be incorporated into a downstream product sold in the United States. This expectation in a competitive marketplace will result in a higher initial sale price. The patentee would therefore recover both a price premium from its initial sale abroad, as well as profits from its product's first sale within the United States. Absent international patent exhaustion, the patentee may effectively receive its "U.S. market reward" twice.

That result would offend the basic patent-law principle that patentees should be allowed to extract monopoly profits from the sale of a patented article only once. *See generally* Margaret Barrett, *The United States' Doctrine of Exhaustion: Parallel Imports of Patented Goods*, 27 N. KY. L. REV. 911, 912–13 (2000) [hereinafter *Parallel Imports*]. The "single-reward principle" has venerable roots. *See generally* John A. Rothchild, *Exhausting Extraterritoriality*, 51 SANTA CLARA L. REV. 1187 (2011). Allowing patent owners to "double-dip" and extract additional monopoly profits from downstream purchasers would upset the patent system's carefully crafted balance between "motivating innovation" and "avoiding monopolies that unnecessarily stifle competition." *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998). This overcompensation would result in "a mismatch between invention

and reward." *Bowman v. Mosanto Co.*, 133 S. Ct. 1761, 1767–68 (2013). The same is true under an unconditional worldwide license, in which each party presumably received its market reward when it agreed to the license terms.

III. The Federal Circuit's decision has grave consequences for the American economy.

The issue of international patent exhaustion has enormous consequences for the American economy and global welfare. The scale and diversity of interests impacted by the Federal Circuit's decision warrants this Court's attention. For four independent reasons, we urge this Court to grant certiorari.

First, the Federal Circuit's opinion generates needless cost and uncertainty by allowing patent-infringement claims to attach to an article that has already been the subject of an authorized first sale. As the Petition highlights, "[t]he modern supply chain for consumer goods is astonishingly complex." Pet. at 33. And complex technological products, ranging from iPhones to semiconductors, will "often embody hundreds if not thousands of 'potentially patentable' technologies." *Id.* (quoting Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 RAND J. ECON. No. 1, 101, 110 (2001)). Many of these potentially patentable components are imported from abroad.

The Federal Circuit opinion thus places extra administrative burdens and legal barriers on com-

panies like SanDisk, which are forced to track the upstream sales histories and associated patent claims of each of its products' many component parts. The added information cost of verifying that no single component is protected by a U.S. patent discourages the creation of complex products that incorporate new components. In contrast, international patent exhaustion affords certainty and predictability to purchasers of patented articles—and thus streamlines and incentivizes production of new technologies in the United States.

Second, the Federal Circuit's decision reduces the welfare of American consumers while providing a windfall to patent holders. *See, e.g.*, Gene M. Grossman & Edwin L.C. Lai, *Parallel Imports and Price Controls*, 39 RAND. J. ECON. 378 (2008) (concluding that a rule of international patent exhaustion would increase the wealth of consumers in the global North, including the United States). In contrast, a rule of international patent exhaustion would decrease prices for products—ranging from drugs[7] to

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[7] The Federal Circuit expressed concern about the impact that international patent exhaustion might have on the price of pharmaceuticals in developing nations. In the absence of international patent exhaustion, global pharmaceutical companies can price-discriminate, selling drugs cheaply in developing countries without fear that some of those low-priced drugs will find their way into the United States, depressing prices there.

But concerns about international drug pricing should be addressed through targeted legislation. For example, the Hatch-Waxman Act provides for reduced drug costs and greater access to drugs through a shortened approval process for generic manufacturers. Drug Price Competition and Patent Term Res-

smartphones to semiconductors—sold in the United States. A KPMG study estimated the cost savings to Americans at roughly $10 billion in 2007 alone. KPMG, *Effective Channel Management Is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line* (2008).

Third, the Federal Circuit's decision hampers the operation of free markets. The exhaustion doctrine is rooted in the law's "general abhorrence of restraints on alienation, and the interference [that] such restraints impose on a free market." *Parallel Imports* at 912; *see also LifeScan Scotland, Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1376 (Fed. Cir. 2013). Absent a robust patent-exhaustion doctrine, patent-infringement claims "survive numerous transactions regarding the patented good, allowing the force of the patent to intrude deeply into the stream of commerce." *Quanta*, 553 U.S. at 630 n.5 (citation omitted). The Federal Circuit's decision would allow patent rights to remain attached to an article that has been in the stream of commerce for years and has been the subject of multiple transactions. That is exactly the kind of restraint on alienation that motivated courts to recognize the common-law first-sale doctrine.

Fourth, the scale of interests implicated counsels this Court to grant certification. The U.S. Bureau of Economic Analysis reported that in 2011, $40

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toration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified as amended in scattered sections of 21 & 35 U.S.C. (1994)). Courts should not broadly distort patent law to address problems best solved by targeted legislation.

billion of technology imports may be implicated by international-exhaustion policy. Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Working Paper No. 09-098, at 1. And the impact of international exhaustion on global wealth distribution is likely just as vast, if not more so. The sheer economic scale of this issue warrants this Court's attention.

IV. The Federal Circuit's decision should be deemed explicitly inapplicable where parties have contracted to provide an unconditional worldwide license.

SanDisk also urges the Court to clarify that authorized sales made abroad under an unconditional worldwide license that contains no geographic restrictions are not subject to the Federal Circuit's decision in *Lexmark*. This would accord with the principle that the Patent Act only bars making, using, offering to sell, or selling patented technology "without authority," whereas conducting those activities under a license means doing them "with authority." *See* 35 U.S.C. § 271(a). As the Federal Circuit succinctly put it: "The proper focus is on whether the sales were authorized." *Tessera, Inc. v. Int'l Trade Comm'n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011).

A rule that a sale anywhere in the world exhausts U.S. patent rights if that sale was authorized by an unconditional worldwide license comports with the reasonable expectations of the licensing parties, who are likely to be dealing in mobile goods that cross national borders. Conversely, the failure to recognize exhaustion in those circumstances would

unfairly extend the patent monopoly, disrupt those reasonable expectations, unduly hinder the licensee's rights, and stifle international trade.

The Second Circuit recognized nearly a century ago that granting an unconditional patent license for a highly mobile article that is expected to cross international borders exhausts the patentee's rights to block importation of that article into the United States or to receive damages for such importation. *See Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71 (2d Cir. 1920). And several district-court decisions likewise hold that patent exhaustion results from foreign sales made under a negotiated license that expressly authorizes sales of the licensed technology anywhere in the world. *See SanDisk Corp. v. Round Rock Research, LLC*, No. 11-cv-5243, 2014 WL 2700583 (N.D. Cal. June 13, 2014); *Multimedia Patent Trust v. Apple Inc.*, No. 10-cv-2618-H (KSC), 2012 WL 6863471 (S.D. Cal. Nov. 9, 2012); *STMicroelectronics, Inc. v. SanDisk Corp.*, No. 05-cv-45, 2007 WL 951655 (E.D. Tex. Mar. 26, 2007).

That result could coexist with a restricted reading of *Lexmark* and *Jazz Photo*. A basic premise of those cases was that only sales "under a United States patent" can exhaust United States patent rights. The mere sale of a patented article outside of the United States was not made "under a United States patent" and therefore was held not to have exhausted United States patent rights. But where the parties negotiate for an unconditional worldwide license, sales made under that license are authorized sales "under" all of the licensed patents—including

the United States patents—wherever the sale may occur.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

STEVEN A. HIRSCH
COUNSEL OF RECORD
KEKER & VAN NEST, LLP
633 Battery Street
San Francisco, CA 94111
Email: SHirsch@kvn.com
(415) 391-5400

Counsel for Amicus Curiae
SanDisk Corporation

April 21, 2016

AND
BRIEFS

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No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

JOINT APPENDIX

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
Mayer Brown LLP
1999 K Street, N.W.
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

Counsel for Petitioner

CONSTANTINE L. TRELA, JR.
Counsel of Record
Sidley Austin LLP
One South Dearborn St.
Chicago, IL 60603
(312) 853-7293
ctrela@sidley.com

Counsel for Respondent

PETITION FOR CERTIORARI FILED MAR. 21, 2016
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U.S. DISTRICT COURT
SOUTHERN DISTRICT OF OHIO

LEXMARK INTERNATIONAL, INC.,
Plaintiff,
v.
INK TECHNOLOGIES PRINTER, LLC ET AL.,
Defendants.

No. 1:10-cv-00564-MRB

RELEVANT DOCKET ENTRIES

NO.	DATE	DESCRIPTION
1	08/20/2010	COMPLAINT with JURY DEMAND against All Defendants, filed by Lexmark International, Inc.
84	12/08/2010	Joint MOTION for Entry of Stipulated Permanent Injuction, Consent Judgment and Dismissal With Prejudice by Plaintiff Lexmark International, Inc., Defendant Virtual Imaging Products, Inc.
87	12/21/2010	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE AND ORDER re Print-Rite Holdings, Ltd. and Union Technology Int'l

NO.	DATE	DESCRIPTION
		(M.C.O.) Co., Ltd.
90	01/11/2010	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE re Defendant Nectron International, Inc.
91	01/11/2011	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE re Alpha Image International, Inc. and E-Toner Mart, Inc.
93	01/19/2011	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to defendants Ninestar Image Co., Ltd., Ninestar Image Int'l, Ltd., Seine Image International Co., Ninestar Technology Company, Ltd., Ziprint Image Corporation and Nano Pacific Corp.
96	03/21/2011	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to defendant Acecom, Inc.
97	03/21/2011	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL

NO.	DATE	DESCRIPTION
		WITH PREJUDICE as to defendant Chung Pal Shim
100	04/14/2011	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to defendant Ink Technologies Printer Supplies, LLC
101	04/14/2011	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to defendant IJSS Inc.
103	08/02/2011	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to defendants Jahwa Electronics Co., Ltd., Huizhou Jahwa Electronics Co., Ltd., Laser Toner Technology, Copy Technologies, and C&R Services, Incorporated
105	09/15/2011	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to defendant Direct Billing International Incorporated
114	11/17/2011	STIPULATED PERMANENT INJUCTION, CONSENT

NO.	DATE	DESCRIPTION
		JUDGMENT, AND DISMISSAL WITH PREJUDICE as to ACM Technologies granting Joint MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by ACM Technologies, Inc., Lexmark International, Inc.
122	06/20/2020	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to John Doe Defendant Tonercharge
129	07/08/2012	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to John Doe Defendant KG TonerNu, Inc.
130	07/08/2012	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to John Doe Defendant enhanced Laser Products
131	07/08/2012	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to John Doe Defendant Quality Printing

NO.	DATE	DESCRIPTION
132	07/08/2012	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to John doe Defendant Image Solutions
134	07/09/2012	STIPULATED PERMANENT INJUCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to John doe Defendant Imex America Corporation
146	07/30/2012	CONSENT JUDGMENT granting 137 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
147	07/30/2012	CONSENT JUDGMENT granting 138 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
148	07/30/2012	CONSENT JUDGMENT granting 139 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International,

NO.	DATE	DESCRIPTION
		Inc.
149	07/30/2012	CONSENT JUDGMENT granting 140 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
150	07/30/2012	CONSENT JUDGMENT granting 141 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
151	07/30/2012	CONSENT JUDGMENT granting 142 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
152	08/01/2012	CONSENT JUDGMENT granting 143 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
153	08/01/2012	CONSENT JUDGMENT granting 144 MOTION for Entry

NO.	DATE	DESCRIPTION
		of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
157	08/06/2012	CONSENT JUDGMENT granting 154 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
158	08/06/2012	CONSENT JUDGMENT granting 155 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
159	08/06/2012	CONSENT JUDGMENT granting 156 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
164	08/13/2012	CONSENT JUDGMENT granting 156 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International,

NO.	DATE	DESCRIPTION
		Inc.
176	08/22/2012	CONSENT JUDGMENT granting 163 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
177	08/22/2012	CONSENT JUDGMENT granting 167 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
178	08/22/2012	CONSENT JUDGMENT granting 168 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
179	08/22/2012	CONSENT JUDGMENT granting 169 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
180	08/22/2012	CONSENT JUDGMENT granting 171 MOTION for Entry

NO.	DATE	DESCRIPTION
		of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
181	08/22/2012	CONSENT JUDGMENT granting 162 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
184	08/28/2012	CONSENT JUDGMENT granting 172 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
185	08/28/2012	CONSENT JUDGMENT granting 173 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
188	09/04/2012	CONSENT JUDGMENT granting 183 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International,

NO.	DATE	DESCRIPTION
		Inc.
189	09/04/2012	CONSENT JUDGMENT granting 182 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
194	09/13/2012	CONSENT JUDGMENT granting 187 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
195	09/13/2012	CONSENT JUDGMENT granting 190 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
196	09/13/2012	CONSENT JUDGMENT granting 174 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
199	09/25/2012	CONSENT JUDGMENT granting 191 MOTION for Entry

NO.	DATE	DESCRIPTION
		of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
200	09/25/2012	CONSENT JUDGMENT granting 192 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
201	09/25/2012	CONSENT JUDGMENT granting 193 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
212	12/03/2012	CONSENT JUDGMENT granting 210 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
214	12/20/2012	CONSENT JUDGMENT granting 213 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment and Dismissal with Prejudice filed by Lexmark International,

NO.	DATE	DESCRIPTION
		Inc.
227	03/04/2013	STIPULATED ENTRY granting Motion for Contempt
233	04/22/2013	AMENDED COMPLAINT against Direct Billing International Incorporated, IJSS Inc., Blue Trading LLC, Core Servicios Informaticos S.I., ECOI US Supplies, Inc., Eco Service China Ltd., Enviro Green Technologies, Exprint International, Inc., FBA Holding, Inc., Fuller International Corporation, Green Imaging Supplies, Inc., Green Project, Inc., Impression Products, Inc. ,Interseroh Product Cycle GmbH, K&W International Development, Inc., LD Products, Inc., N&L Global Co., NGS S.A., Onlinetechstores.com, Inc., Prinko Image Co. (USA), Printronic Corporation, Recyca BVBA, Refiltoner, Shanghai Orink Infotech International Co., Ltd., Standard Image USA, Inc., Tech Optics, Inc., Tesen Development (Hong Kong) Co. Ltd., Wal Group LLC, XSE Group, Inc., Zhuhai Richeng Development Co., Ltd., MBC Trading, Inc., filed by Lexmark

NO.	DATE	DESCRIPTION
		International, Inc.
280	06/19/2013	STIPULATED PERMANENT INJUNCTION, CONSENT JUDGMENT AND DISMISSAL WITH PREJUDICE granting 264 MOTION for Permanent Injunction filed by Lexmark International, Inc.
281	06/19/2013	STIPULATED PERMANENT INJUNCTION, CONSENT JUDGMENT AND DISMISSAL WITH PREJUDICE granting 265 MOTION for Permanent Injunction filed by Lexmark International, Inc.
296	06/25/2013	STIPULATION ORDER FOR CONTEMPT granting Joint Motion for Stipulation
297	06/25/2013	STIPULATED PERMANENT INJUNCTION, CONSENT JUDGMENT AND DISMISSAL WITH PREJUDICE granting 284 Joint MOTION Entry of Stipulated Permanent Injunction, Consent Judgment And Dismissal With filed by IJSS Inc. and Lexmark International, Inc.
304	07/01/2013	STIPULATED PERMANENT INJUNCTION, CONSENT JUDGMENT AND DISMISSAL

NO.	DATE	DESCRIPTION
		WITH PREJUDICE granting 298 MOTION for Permanent Injunction, filed by Lexmark International, Inc.
335	07/30/2013	MOTION TO DISMISS FOR FAILURE TO STATE A CLAIM by Defendant Impression Products, Inc.
350	08/02/2013	STIPULATED PERMANENT INJUNCTION, CONSENT JUDGMENT AND DISMISSAL WITH PREJUDICE granting 342 MOTION for Entry of Stipulated Permanent Injunction, Consent Judgment And Dismissal With Prejudice filed by Lexmark International, Inc. and Optimus Graphics Corporation
351	08/02/2013	STIPULATED PERMANENT INJUNCTION as to Printronic Corporation
352	08/02/2013	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE as to Printronic Corporation
358	08/13/2013	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE OF ECOI re MOTION for Entry of Stipulated Permanent Injunction, Final

NO.	DATE	DESCRIPTION
		Judgment and Dismissal
359	08/13/2013	STIPULATED PERMANENT INJUNCTION RE MOTION for Entry of Stipulated Permanent Injunction, Final Judgment and Dismissal of Permanent Injunction
360	08/15/2013	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE re MOTION for Entry of Stipulated Permanent Injunction, Final Judgment and Dismissal
361	08/15/2013	STIPULATED PERMANENT INJUNCTION RE MOTION for Entry of Stipulated Permanent Injunction, Final Judgment and Dismissal filed by Lexmark International, Inc.
367	08/22/2013	RESPONSE to Motion re MOTION TO DISMISS FOR FAILURE TO STATE A CLAIM filed by Plaintiff Lexmark International, Inc.
368	08/23/2013	REPLY to Response to Motion re MOTION TO DISMISS FOR FAILURE TO STATE A CLAIM filed by Defendant Impression Products, Inc.
375	08/28/2013	Clerk's ENTRY OF DEFAULT as to Direct Billing International

NO.	DATE	DESCRIPTION
		Incorporated
378	09/03/2013	MOTION for Leave to File by Plaintiff Lexmark International, Inc.
379	09/03/2013	RESPONSE in Opposition re MOTION for Leave to File filed by Defendant Impression Products, Inc.
387	09/05/2013	STIPULATED PRELIMINARY INJUCTION
395	09/16/2013	Second MOTION TO DISMISS FOR FAILURLE TO STATE A CLAIM by Defendant Impression Products, Inc.
410	09/27/2013	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE as to Wal Group LLC and Wal Group LLC
411	09/27/2013	STIPULATED PERMANENT INJUNCTION
412	09/27/2013	STIPULATED ORDER OF CONTEMPT
413	09/27/2013	ORDER granting MOTION for Entry of Order of Contempt, Stipulated Permanent Injunction, Final Judgment and Dismissal with Prejudice filed by Lexmark International, Inc.
414	09/27/2013	ORDER granting Motion for Entry of Stipulated Permanent

NO.	DATE	DESCRIPTION
		Injunction and Final Judgment and Dismissal with Prejudice against Standard Image USA, Inc.
416	09/27/2013	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE as to Standard Image USA, Inc.
417	09/27/2013	STIPULATED PERMANENT INJUNCTION
431	10/10/2013	RESPONSE in Opposition re Second MOTION TO DISMISS FOR FAILURE TO STATE A CLAIM filed by Plaintiff Lexmark International
434	10/11/2013	REPLY to Response to Motion re 395 Second MOTION TO DISMISS FOR FAILURE TO STATE A CLAIM filed by Defendant Impression Products, Inc.
436	10/14/2013	Clerk's ENTRY OF DEFAULT as to Defendant MBC Trading, Inc.
440	10/15/2013	MOTION for Leave to File Sur-Reply to Second Motion to Dismiss of Defendant Impression Products by Plaintiff Lexmark International, Inc.
447	10/21/2013	ORDER granting Motion for Stipulated Permanent

NO.	DATE	DESCRIPTION
		Injunction as to Precision Printer; granting Motion for Stipulated Permanent Injunction as to T3 Toner, LLC
448	10/21/2013	STIPULATED PERMANENT INJUNCTION AND CONSENT JUDGMENT AS TO Precision Printer Services.
449	10/21/2013	STIPULATED PERMANENT INJUNCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to T3 Toner, LLC.
450	10/22/2013	RESPONSE to Motion re MOTION for Leave to File Sur-Reply to Second Motion to Dismiss of Defendant Impression Products filed by Defendant Impression Products, Inc.
463	11/01/2013	AMENDED COMPLAINT (Second) for Patent Infringement against Blue Trading LLC, Core Servicios Informaticos S.I., Direct Billing International Incorporated, Eco Service China Ltd., Exprint International, Inc., FBA Holding, Inc., Green Cartridge Company, Green Project, Inc., Impression Products, Inc., Interseroh Product Cycle GmbH,

NO.	DATE	DESCRIPTION
		LD Products, Inc., MBC Trading, Inc., N & L Global Co., NGS S.A., Onlinetechstores.com, Inc., Prinko Image Co. (USA), Recyca BVBA, Refiltoner, Shanghai Orink Infotech International Co., Ltd., Tech Optics, Inc., Tesen Development (Hong Kong) Co. Ltd., Zhuhai Richeng Development Co., Ltd., Eco Service Sp. z o.o., Hock Group LLC, LTS Consumables, Inc., OW Supplies Corp., Sinotime Technologies, Inc., TonerLand, Zhuhai Aicon Image Co., Ltd., filed by Lexmark International, Inc.
470	11/05/2013	Clerk's ENTRY OF DEFAULT as to Defendant Recyca BVBA
471	11/05/2013	Clerk's ENTRY OF DEFAULT as to Defendant Green Cartridge Company
472	11/05/2013	Clerk's ENTRY OF DEFAULT as to Defendant Zhuhai Richeng Development Co.
473	11/05/2013	Clerk's ENTRY OF DEFAULT as to Defendant Shanghai Orink Infotech International Co., Ltd.
474	11/05/2013	Clerk's ENTRY OF DEFAULT as to Defendant Refiltoner
476	11/05/2013	Clerk's ENTRY OF DEFAULT

NO.	DATE	DESCRIPTION
		as to Defendant NGS S.A.
478	11/12/2013	DISMISSAL WITH PREJUDICE granting Joint MOTION for Entry of Dismissal as to FBA Holdings, Inc. filed by Lexmark International, Inc.
479	11/12/2013	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE
480	11/12/2013	STIPULATED PERMANENT INJUNCTION
485	11/25/2013	NOTICE by Defendant Impression Products, Inc. of Additional Authority Regarding its Motion to Dismiss Re Jazz Photo
488	11/26/2013	Response re Notice (Other) of Additional Authority by Plaintiff Lexmark International, Inc.
491	11/27/2013	Reply re Response (non motion) to the Notice of Additional Authority by Defendant Impression Products, Inc.
534	12/20/2013	STIPULATED PERMANENT INJUNCTION, CONSENT JUDGMENT, AND DISMISSAL WITH PREJUDICE as to Blue Trading, LLC
548	01/03/2014	NOTICE of Voluntary Dismissal of Defendant Eco Service China,

NO.	DATE	DESCRIPTION
		Ltd. by Plaintiff Lexmark International, Inc.
556	01/06/2014	ORDER FOR DEFAULT JUDGMENT granting MOTION for Default Judgment against Prinko Image Co. (USA), Inc filed by Lexmark International, Inc.
557	01/08/2014	ORDER FOR DEFAULT JUDGMENT granting MOTION for Default Judgment against MBC Trading, Inc. filed by Lexmark International, Inc.
558	01/08/2014	ORDER FOR DEFAULT JUDGMENT granting MOTION for Default Judgment against Shanghai Orink InfoTech International Co., Ltd. filed by Lexmark International, Inc.
559	01/08/2014	ORDER FOR DEFAULT JUDGMENT granting MOTION for Default Judgment against Zhuhai Richeng Development Co., Ltd. filed by Lexmark International, Inc.
560	01/08/2014	ORDER FOR DEFAULT JUDGMENT granting MOTION for Default Judgment against Refiltoner filed by Lexmark International, Inc.
561	01/08/2014	ORDER FOR DEFAULT

NO.	DATE	DESCRIPTION
		JUDGMENT granting MOTION for Default Judgment against NGS S.A. filed by Lexmark International, Inc.
562	01/08/2014	ORDER FOR DEFAULT JUDGMENT granting MOTION for Default Judgment against Enviro Green Technologies filed by Lexmark International, Inc.
563	01/08/2014	ORDER re Notice of Voluntary Dismissal filed by Lexmark International, Inc.
567	01/22/2014	ORDER granting MOTION to Set Aside Clerk's Entry of Default
568	01/22/2014	STIPULATED PERMANENT INJUNCTION as to LTS Consumables
569	01/22/2014	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE as to LTS Consumables
570	01/23/2014	Clerk's ENTRY OF DEFAULT as to Defendant Core Servicios Informaticos S.I.
585	02/18/2014	Clerk's ENTRY OF DEFAULT as to Defendant Zhuhai Aicon Image Co., Ltd.
587	02/19/2014	STIPULATED PERMANENT INJUNCTION AS TO

NO.	DATE	DESCRIPTION
		Tonerland.
588	02/19/2014	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE as to TonerLand
604	03/06/2014	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE at to Hock Group LLC d/b/a ProfessorInk.com
605	03/06/2014	STIPULATED PERMANENT INJUNCTION AS TO Hock Group LLC.
614	03/27/2014	ORDER granting Motion for Leave to File Surreply re Motion to Dismiss
615	03/27/2014	ORDER granting Motion to Dismiss for Failure to State a Claim as to Defendant Impression Products, Inc.
616	03/27/2014	ORDER denying 378 Motion for Leave to File to file surrepy
617	03/27/2014	ORDER denying Motion to Dismiss for Failure to State a Claim as to Defendant Impression Products, Inc.
619	03/27/2014	STIPULATED PERMANENT INJUNCTION and Dismissal with Prejudice with respect to OnlineTechStores.com, Inc. filed by Lexmark International, Inc.
620	03/27/2014	STIPULATED PERMANENT

NO.	DATE	DESCRIPTION
		INJUNCTION AND DISMISSAL WITH PREJUDICE with respect to Recyca BVBA filed by Lexmark International, Inc.
621	03/27/2014	DISMISSAL WITH PREJUDICE re Permanent Injunction as to Recyca BVBA granting Motion for entry of consent judgment and dismissal with prejudice
635	04/03/2014	STIPULATED PERMANENT INJUNCTION AND DISMISSAL WITH PREJUDICE as to OW Supplies
636	04/03/2014	STIPULATED PERMANENT INJUNCTION AND DISMISSAL WITH PREJUDICE as to N&L Global Corp.
647	04/29/2014	STIPULATED PERMANENT INJUNCTION Dismissal with Prejudice as to LD Products, Inc filed by Lexmark International, Inc.
648	04/29/2014	STIPULATED PERMANENT INJUNCTION as to Sinotime Technologies, Inc.
649	04/29/2014	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE as to Sinotime

NO.	DATE	DESCRIPTION
		Technologies, Inc.
650	04/29/2014	STIPULATED PERMANENT INJUNCTION as to Tech Optics, Inc.
651	04/29/2014	FINAL JUDGMENT AND DISMISSAL WITH PREJUDICE as to Tech Optics, Inc.
658	05/29/2014	NOTICE of Voluntary Dismissal as to Defendant Eco Service Sp. Z o.o. by Plaintiff Lexmark International, Inc.
659	05/29/2014	NOTICE of Voluntary Dismissal as to Defendant Core Servicios Informaticos, S.L. by Plaintiff Lexmark International, Inc.
660	05/29/2014	NOTICE of Voluntary Dismissal as to Defendant Interseroh Product Cycle GmbH by Plaintiff Lexmark International, Inc.
662	06/17/2014	STIPULATED PERMANENT INJUNCTION as to Benigno (Benny) Adeva; ACI Supplies, LLC; All Color Imaging, Inc.; ABD Office Machines, Inc. d/b/a ABD Office Machines, Inc., ABD Office Solutions, InkTonerDepot.com, ABD Office Solutions; and TonerBoss LLC d/b/a TonerOfEarth, TonerGreen,

NO.	DATE	DESCRIPTION
		JustGreenStuff.com, Inkjet Universe, RoboToner, ColorToner Expert, TonerFarm
663	06/17/2014	STIPULATED PERMANENT INJUNCTION as to Benigno (Benny) Adeva; ACI Supplies, LLC; All Color Imaging, Inc.; ABD Office Machines, Inc. d/b/a ABD Office Machines, Inc., ABD Office Solutions, InkTonerDepot.com, ABD Office Solutions; and TonerBoss LLC d/b/a TonerOfEarth, TonerGreen, JustGreenStuff.com, Inkjet Universe, RoboToner, ColorToner Expert, TonerFarm.
666	06/23/2014	ORDER granting Motion for Default Judgment against Direct Billing International Incorporated d/b/a Office Supply Outfitters.
667	06/23/2014	ORDER granting Motion for Default Judgment against Zhuhai Aicon Image Co. Ltd.
668	06/24/2014	STIPULATED PERMANENT INJUNCTION as to Impression Products, Inc.
669	06/24/2014	ORDER granting 661 SEALED MOTION filed by Impression Products, Inc., Lexmark

NO.	DATE	DESCRIPTION
		International, Inc.
670	06/24/2014	STIPULATED FINAL JUDGMENT.
671	06/26/2014	NOTICE OF APPEAL as to Judgment by Defendant Impression Products, Inc.
672	06/27/2014	NOTICE OF APPEAL as to Judgment by Plaintiff Lexmark International, Inc.
673	07/15/2014	TRANSCRIPT REQUEST as to Lexmark International, Inc. by Plaintiff Lexmark International, Inc.
681	03/17/2015	NOTICE by Plaintiff Lexmark International, Inc., Defendant Impression Products, Inc.
685	03/14/2016	ORDER of USCA for the Federal Circuit as to Notices of Appeal:
686	03/25/2016	MANDATE of USCA as to Notices of Appeal
687	03/30/2016	ERRATUM of USCAFC re Notices of Appeal

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

LEXMARK INTERNATIONAL, INC.,
Plaintiff-Cross-Appellant,
v.
IMPRESSION PRODUCTS, INC.,
Defendant-Appellant.

No. 14-1617

RELEVANT DOCKET ENTRIES

NO.	DATE	DESCRIPTION
1	7/14/14	Appeal Docketed.
20	9/5/14	Opening Brief – Tendered from Appellant Impression Products, Inc.
24	10/20/14	Opening Brief – Tendered from Cross-Appellant Lexmark International, Inc. (This brief has been withdrawn.)
26	10/21/14	Notice of Correction to the Brief Doc No. [24] for Cross-Appellant Lexmark International, Inc.

NO.	DATE	DESCRIPTION
27	10/21/14	Corrected Opening Brief – Tendered from Cross-Appellant Lexmark International, Inc.
29	10/23/14	The previously filed brief filed by Cross-Appellant Lexmark International, Inc. is withdrawn.
31	10/30/14	Citation of Supplemental Authority pursuant to Fed. R. App. P. 28(j) for Cross-Appellant Lexmark International, Inc.
32	11/12/14	Reply Brief – Tendered from Appellant Impression Prods., Inc.
54	12/15/14	Reply Brief – Tendered from Cross-Appellant Lexmark International, Inc.
57	12/23/14	Joint Appendix. (This brief has been replaced. See ECF. 64.)
59	12/30/14	Notice of Correction to the Brief Doc No. [57]

NO.	DATE	DESCRIPTION
60	12/30/14	Corrected Joint Appendix
61	12/30/14	Corrected Confidential Joint Appendix
83	04/14/15	Precedential Order, case to be heard en banc
105	06/12/15	Opening Brief – Tendered from Appellant Impression Products, Inc.
239	08/12/15	Response Brief – Tendered from Cross-Appellant Lexmark International, Inc.
316	08/27/15	Reply Brief – Tendered from Appellant Impression Products, Inc.
338	02/12/16	OPINION and JUDGMENT filed
339	02/12/16	CORRECTED OPINION and JUDGMENT filed
340	03/21/16	Mandate issued to the United States District Court for the Southern District of Ohio

NO.	DATE	DESCRIPTION
341	03/23/16	Petition for writ of Certiorari filed on 03/21/2016 in the Supreme Court of the United States
342	03/28/16	ERRATA to the Precedential Opinion Doc No.: [339]

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

LEXMARK INTERNATIONAL, INC.,
Plaintiff-Cross-Appellant,
v.
IMPRESSION PRODUCTS, INC.,
Defendant-Appellant.

No. 14-1619

RELEVANT DOCKET ENTRIES

NO.	DATE	DESCRIPTION
1	7/14/14	Appeal Docketed.
7	10/21/14	Opening Brief – TENDERED from Cross-Appellant Lexmark International, Inc.
8	10/20/14	Notice of Correction to the Brief Doc No. [7] for Cross-Appellant Lexmark International, Inc.
9	10/21/14	Corrected Opening Brief – TENDERED from Cross-Appellant Lexmark International, Inc.

NO.	DATE	DESCRIPTION
11	04/14/15	PRECEDENTIAL ORDER filed, case to be heard en banc
15	02/12/16	OPINION AND JUDGMENT filed
16	02/12/16	CORRECTED OPINION AND JUDGMENT filed
17	03/21/16	Mandate issued to the United States District Court for the Southern District of Ohio
18	03/28/16	ERRATA to the Precedential Opinion Doc No.: [16]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
WESTERN DIVISION

LEXMARK INTERNATIONAL, INC.,
Plaintiff,

- v -

INK TECHNOLOGIES PRINTER, SUPPLIES, LLC, et al.,
Defendants.

CASE NO. 1:10-CV-564
Hearing on Motion for Contempt
9:40 A.M.
Monday, June 17, 2013
Cincinnati, Ohio

TRANSCRIPT OF PROCEEDINGS BEFORE THE HONORABLE MICHAEL R. BARRETT

For the Plaintiff:
TIMOTHY C. MEECE, ESQ.
JASON S. SHULL, ESQ.
AUDRA C. EIDEM HEINZE, ESQ.
V. BRYAN MEDLOCK, JR., ESQ.
Banner & Witcoff, Ltd.
10 South Wacker Drive, Suite 300
Chicago, Illinois 60606

STEVEN B. LOY, ESQ.
Stoll Keenon Ogden, PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507

For the Defendants:

JON E. HOKANSON, ESQ.
THOMAS S. KIDDÉ, ESQ.
Lewis Brisbois Bisgaard & Smith, LLP
221 North Figueroa Street, Suite 1200
Los Angeles, California 90012

DAVID G. KERN, ESQ.
Roetzel & Andress
250 East Fifth Street, Suite 310
Cincinnati, Ohio 45202

Also present:	Mr. Ilan Douek Tim Haugh, IT Technician
Law Clerk:	Lindsay Potrafke, Esq.
Courtroom Deputy:	Barbara A. Crum
Court Reporter:	Maryann T. Maffia, RDR 239 Potter Stewart U.S. Courthouse 100 East Fifth Street Cincinnati, Ohio 45202

[Pages 3 – 14 omitted]

[15] Lexmark's cartridges, and they infringe Lexmark's cartridges unless there is patent exhaustion.

IJSS in its brief at page 14 admitted that, according to the law of the Federal Circuit, it is its burden of proof to quote -- or its burden of proof is to show patent exhaustion. "Patent exhaustion is an affirmative defense for which IJSS has the burden of proof." They admit that.

What evidence are we going to see that there was any patent exhaustion for any of the 3,121 of the cartridges that it sold through November of 2012? You're not going to see anything at this hearing. There will be absolutely no evidence of exhaustion presented.

Now, it's not our burden to show a lack of patent exhaustion. We don't have to disprove the negative. However, we can show substantial evidence that our patent rights were not exhausted.

One of the ways that we can do this is to start here with Lexmark's worldwide brand protection strategy. Mr. Gardner, Lexmark's corporate witness here today, is the Worldwide Brand Protection Manager for Lexmark. He will testify that as part of Lexmark's brand protection strategy they regionalize their cartridges. What that means is that a cartridge sold for use in one region is only meant to work with printers sold for use in that same region. You can't mix and match a cartridge sold for use in Latin America with a printer sold for use in North [16] America. If you try to do that, the cartridge won't work.

Lexmark does this to protect against grey market supplies and counterfeit products. By "grey market," we mean there may be situations where Lexmark has to do special bid pricing in one area of the world for one customer for some specific reason. They can't have that vendor then siphoning off product and shipping it to another area of the world. It causes problems.

It also opens up then channels. If they are doing that, it opens up channels through which counterfeit or fake or clone products can be channelled to an inappropriate venue.

So all this information is publicly available, publicly available on the Internet, and Lexmark's remanufacturers are well aware of it.

Here is one example. Region 4, which we have highlighted, which I'm going to touch our screen here to play, Region 4, that's Latin America. If you sell a cartridge into Latin America, then you try to import that cartridge into the United States, it won't work. It won't work in a U.S. printer.

It's known by Print After Print. Print After Print is the largest supplie says that they know that cartridges ending with ıe suffix L in the part number are for Latin America, and that prevents the cartridge -- the chip on the cartridge then prevents the cartridge from being used with printers in other areas of the world.

[Page 17 – 23 omitted]

[24] suffix A, right there (indicating). That suffix A means North America. It corresponds to the Region 1 that we saw and the earlier chart.

Then we have this Lexmark serial number over here (indicating). That's a distinct serial number that Lexmark uses to track its cartridges.

All this information was concealed or destroyed. None of it was kept.

So what do we think you're going to hear from IJSS? What do we think that they are going to say? You're going to hear a series of excuses.

The first one probably is: Lexmark made me do it.

They're going to say Lexmark sent a letter to Mr. Sherman, Print After Print, in December of 2010. In that letter, Lexmark told Print After Print that it had a series of federal trademarks and it didn't want its trademarks to remain on any products that Print After Print was selling. Lexmark didn't want any consumers to be confused by the products that IJSS or Print After Print was selling. If there is a bad product and it's got a Lexmark trademark on it, the customer is going to assume, "Well, that was Lexmark. They gave me a bad product." So Lexmark asked them to not have any trademarks appear on the products that they were selling.

The letter never told Print After Print to destroy serial numbers. It never told them to destroy the chips. It never

[Page 25 – 38 omitted]

[39] THE COURT: Thank you.

Counsel.

MR. LOY: Thank you, Your Honor. May it please the Court.

ANDREW GARDNER

a witness herein, testified as follows:

DIRECT EXAMINATION

BY MR. LOY:

Q. Andrew, could you give the Court a sense of post-secondary degrees that you hold.

A. I have a bachelor's degree from Miami University, and I have a master's degree from Baldwin Wallace College.

Q. Okay. And when did your employment with Lexmark begin?

A. Started working for Lexmark in May of 1997.

Q. And what's your current position at Lexmark?

A. Current position is Worldwide Brand Protection Manager. I have responsibility for our corporate Anti-Counterfeit Grey Market Diversion and Supplies Intellectual Property programs.

Q. So as part of your job do you help enforce Lexmark's intellectual property rights?

A. I do, yes.

Q. Thank you. And how long have you had that particular position?

A. Since 2004.

Q. Okay. Now, if you could, for the Court, on a fairly [40] general level describe Lexmark's business.

A. Lexmark is primarily a printer manufacturer. Up until last year we manufactured ink jet printers and laser printers and the supplies that go with them. Last year we exited the ink jet business and now solely concentrate on the laser printer business. We have the -- we are one of the few printer companies that actually owns and develops its own laser printer engine technologies. The research and development for this is done in Lexington, so the prime thrust would be the laser printer market.

Q. Okay. How much does Lexmark on an annual basis typically invest in its research and development?

A. It's between three- and 400 million dollars per year.

Q. I think you heard in Mr. Meece's opening he referenced some awards that Lexmark has received for its technology. Could you give the Court a sense of the types and the number of awards Lexmark has received?

A. The awards we have received are from third-party evaluators such as *Buyers Lab, PC Magazine, Computer Magazine.* These awards are for the monochrome laser printers that we manufacture, awards that show, you know, that the printers perform very well in commercial and business environments.

Q. By monochrome, you are referring to --

MR. HOKANSON: Objection. Leading.

A. Monochrome --

[41] THE COURT: It's a preliminary type of question, so -- there is no jury here, so overruled.

A. Monochrome printing, just -- printers that print just black as opposed to a color printer that print in color.

Q. Thank you. Does Lexmark obtain intellectual property rights on its technology.

A. We do. We have many patents on our printer engines, our printer technologies, as well as the cartridges that are used in tandem with those.

Q. And how important is Lexmark's intellectual property rights?

A. Without the intellectual property rights, you know, it would be very, very difficult for us to continue. You know, as was stated earlier, a vast a majority of the company's profits and revenue came from the sale of the patented printer cartridges.

Q. Lexmark produces, I think you testified, new cartridges. Does Lexmark also remanufacture its own cartridges?

A. We do. We have a -- our cartridge manufacturing facility in Juarez, Mexico, where we make new cartridges is also the location where we remanufacture cartridges. We have a cartridge collection program. These cartridges come from our customers. These are then taken to the facility in Juarez, Mexico. They are sorted, they are remanufactured to the same standards that we would use for manufacturing a new cartridge. [42] They use the same toner in the remanufactured cartridges that we use in the new cartridges, and then those are then sold to corporate customers who have a need for a cartridge at a slightly better price. Since the cartridge housing, the empty cartridge, is reused, we can then offer that at a slightly better price to a corporate user who, you

know, perhaps in a warehouse environment or in a retail planogram environment where they are willing to accept a few tradeoffs versus a brand-new cartridge from Lexmark.

Q. What about cartridges or cartridge parts that cannot be remanufactured, what do you do with those?

A. Cartridges or cartridge parts that are not remanufactured, those are recycled into their component parts so that the plastics are ground up and sold as plastic waste. The metals are recycled and sold as metal waste so they can be turned into new things.

Q. Are there particular areas or channels where Lexmark has had success against its competitors?

A. One of the best markets for us as we look at, you know, vertical markets for our monochrome laser business has been the retail pharmacy market. We have better than 90 percent market share in the retail pharmacy market, and this is because of the printers' capabilities to print labels. One of the benefits of owning our own technology is that we can, you know, adjust the engine parameters, the fuser temperatures to

[Pages 43 – 45 omitted]

[46] 1720 printer would be the same or equivalent to the Lexmark E250 printer and printer cartridge.

Q. Thank you.

THE COURT: Steve, is this an agreed exhibit or one that's not?

MR. LOY: This is one of the exhibits that was not objected to, so it's been entered into the record.

THE COURT: Okay. Just do me a favor. Just re-introduce and we'll just say Agreed Exhibit 44 so that I know if there is one that we have to have a conversation about.

MR. LOY: Thank you, Your Honor. I will do that.

THE COURT: Okay. Thank you.

Q. Could you describe for the Court what the remanufacturing industry is, what it does?

A. The remanufacturing industry exists to -- they collect empty cartridges from our customers. They purchase empty cartridges from cartridge brokers. They then get the cartridges, they replace the toner, and they will replace the microchip. They will put a different label on the cartridge, put it in a box and then resell that through a variety of venues to customers who have a printer that would use a remanufactured cartridge.

Q. Okay. Are you familiar with the term "virgin core"?

A. I am. A virgin core or a virgin empty is a toner [47] cartridge that has been used once by a customer. A virgin core is a cartridge that has -- the first use was the customer using the, in this situation, a

Lexmark-branded cartridge. Then once that cartridge gets consumed, it then gets either recycled by the consumer or collected by a cartridge broker.

Virgin cores or virgin empties are the preferred cartridges that remanufacturers like to use because the cartridge has not been remanufactured previously. Therefore, they know that the structure of the cartridge is whole and has not been modified in any way.

Q. So they are more valuable than cartridges that have been reused multiple times?

A. That is correct.

Q. Okay. Have you -- talk about the variation in quality between Lexmark-remanufactured cartridges and third-party-remanufactured cartridges and if you see any variation in the quality among third-party remanufacturers.

A. Lexmark-remanufactured cartridges are made to very high standards in the same facility where we make new cartridges. The same technicians who build our new cartridges may one day during the manufacturing process be tasked to build remanufactured cartridges. So the same people, the same level of expertise to build a new cartridge is used to build a remanufactured cartridge.

The toner that goes into our cartridges, both new and [48] remanufactured, is built, but the toner is built, created by us, by Lexmark, in its facility in Boulder, Colorado. The toners vary depending on the different printer model. Printers that print at a high rate of speed have a toner that melts at a different temperature. The fuser operates at a different temperature because the toner needs to be affixed to the

page very quickly as opposed to a printer that prints at a lower speed so that the temperature of the fuser can be lower.

So we do have a lot of different steps and a lot of different criteria that go into building a quality remanufactured cartridge.

Many remanufacturers will simply collect empty

--

MR. HOKANSON: Objection. Lack of personal knowledge. Speculation.

THE COURT: Well, set the foundation. He's talking about industry-wide standards, so set a foundation.

Q. Andrew, in your position at Lexmark do you familiarize yourself with the remanufacturing industry?

A. I do. I've been to many remanufacturing conferences, attended both in the O.S. and overseas. I'm quite familiar with the process used that remanufacturers use to build and sell remanufactured toner cartridges.

Q. Go ahead.

A. So a remanufacturer will collect an empty cartridge, they will clean the cartridge, they will replace the toner, they [49] will replace the microchip and then, again, sell that. We do see a wide variety of quality offered for sale. We do third-party testing of toner cartridges, so we will buy samples of remanufactured toner cartridges and send them to a third-party company for testing.

Some of these cartridges are what we would term or what the testing company refers to as DOA or

Dead On Arrival. These cartridges would not work out of the box. Quite often, you know, these are cartridges where they open the box, they open the bag and there is toner leaking out of the cartridge. Seals have not been replaced or seals have worn, and the cartridges will leak toner.

Some of the remanufactured cartridges are quite good, but there is a large variation in the quality of remanufactured cartridges.

Q. Do remanufacturers typically alter the structure of the cartridge?

A. No.

Q. Because it wouldn't work?

A. It wouldn't work.

Q. Okay. You talked about some of the variations in quality among the third-party remanufactured cartridges. Why does Lexmark care? It's not you that remanufactured the cartridge.

A. That is true, we did not remanufacture the cartridge. However, it is our printer. It's our printer customer. If a [50] customer has a quality issue with a cartridge and they are unable to determine what brand the cartridge is or where the cartridge came from, they are most likely to pick up the phone, call Lexmark and say, "I've got one of your printers. The cartridge leaked into my printer. My printer won't work. The cartridge damaged the fuser, and now my printer won't work."

And then at that point Lexmark will have to repair the printer, so we would bear the warranty cost for the printer repair.

If this is a repeated issue where the customer has many issues with the quality of the cartridges, when it comes time to replace that printer, you know, they may, you know, decide to look elsewhere. So there is a possible loss of goodwill in addition by the repeated failure of the cartridges where the customer doesn't know the original remanufacturer or manufacturer of that cartridge.

Q. In your position have you seen remanufactured cartridges that were first sold by Lexmark in other countries make their way into the U.S.?

A. Yes, I have.

Q. Is that a common practice?

A. It is, yes.

Q. And does Lexmark care about that?

A. We do care. Cartridges first sold outside the United

[Pages 51 – 61 omitted]

[62] Mr. Meece in his opening referred to geographic designations. Could you describe for the Court Lexmark's geographic designations maybe before you get into this cartridge?

A. Okay. For printers launched by Lexmark post 2005, we introduced a regionalization program that allows us to separate the globe into various parts. But for marketing purposes, it also helps us enforce our grey market regionalization program.

So the chip on the cartridge provides the differentiation. The part number on the cartridge, the suffix for cartridges sold in North America with the letter A; if a cartridge is sold in Latin America, it would be a letter L; E for Europe, Middle East, Africa; and either P or R for Asian-Pacific market.

MR. LOY: This is Exhibit A4. It's agreed, Your Honor.

THE COURT: Okay. Is this the same as the slide presentation?

MR. LOY: It's the same as the slide presentation. Mr. Gardner can tell you some of the more detailed information.

THE COURT: Do we need to repeat all this?

MR. HOKANSON: No.

THE COURT: I mean, I got it, so I don't know --

[Pages 63 – 74 omitted]

[75] A. The serial number has been removed, and the original Lexmark microchip has been replaced.

Q. While you're examining this, does Lexmark derive most of its profit from the printers or the cartridges?

A. From the cartridges.

Q. Okay.

A. This is box Exhibit 26. This is again for a Lexmark E321 printer. This is not a Lexmark box.

This is cartridge Exhibit 27. This is the tape that had covered the original Lexmark label. As we can see, the original Lexmark label is still present. 12a7405 is the original Lexmark part number. This, again, is for a printer that was introduced before our regionalization program. The original Lexmark serial number has been removed. There is a third party or somebody else's serial number on the bottom of the cartridge, and the original Lexmark microchip has been replaced.

Q. Like the other cartridges, if you had either that microchip or the serial number could you determine where this was first sold?

A. Yes.

Q. And like the first cartridge for both this cartridge and the one previously that we looked at, do you have a sense of when they were manufactured by Lexmark?

A. If we had the serial number, we could tell exactly.

[Pages 76 – 94 omitted]

[95] MR. MEECE: Yes.

THE COURT: Anything else, Lindsay?

MS . POTRAFKE: I don' t think so.

MR. MEECE: Thank you.

THE COURT: Thanks, guys.

MR. KERN: Thank you, Your Honor.

MR. HOKANSON: Thank you, Your Honor.

COURTROOM DEPUTY: This court is now adjourned.

(The proceedings concluded at 5:20 p.m.)

CERTIFICATE

I CERTIFY THAT THE FOREGOING IS A CORRECT TRANSCRIPT FROM THE RECORD OF PROCEEDINGS IN THE ABOVE-ENTITLED MATTER.

S/MARYANN T. MAFFIA, RDR

Official Court Reporter

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
CINCINNATI DIVISION

LEXMARK INTERNATIONAL, INC.
Plaintiff,
v.
INK TECHNOLOGIES PRINTER SUPPLIES, LLC, ET AL.
Defendants.
Civil Action No.
1:10-CV-564-MRB

SECOND AMENDED COMPLAINT FOR PATENT INFRINGEMENT

Plaintiff Lexmark International Inc. ("Lexmark") for its second amended complaint against Defendants Blue Trading LLC; Core Servicios Informaticos S.I.; Direct Billing International Incorporated d/b/a Office Supply Outfitters; Eco Service China Ltd.; Eco Service Sp. z o.o.; Enviro Green Technologies; Exprint International, Inc.; FBA Holding, Inc. d/b/a Core Recovery Company, Unitone Imaging Supply, Unitone Imaging Group, Martek Supply Source, Imcopex America, Velox Systems, Inc., and International Digital Solutions; Green Project, Inc.; Hock Group LLC d/b/a ProfessorInk.com; Impression Products, Inc.; Interseroh Product Cycle GmbH; LD Products, Inc. d/b/a 4inkjets.com, Monstertoner.com, Inkcartridges.com, Inkcartridge.com, and 123inkjets.com; LTS Consumables, Inc.; MBC Trading, Inc.; N & L Global Co. d/b/a N & L Global Corporation; NGS S.A.; Onlinetechstores.com, Inc. d/b/a

Supplierswholesalers.com; OW Supplies Corp. d/b/a www.officewarehousesupplies.com; Prinko Image Co. (USA), Inc.; Recyca BVBA; Refiltoner; Shanghai Orink Infotech International Co., Ltd.; Sinotime Technologies, Inc. d/b/a 2Stoner.com; Tech Optics, Inc.; Tesen Development (Hong Kong) Co. Ltd.; TonerLand; Zhuhai Aicon Image Co., Ltd.; and Zhuhai Richeng Development Co., Ltd., states as follows:

NATURE OF CASE

1. This is an action for patent infringement arising under the Patent Laws of the United States, 35 U.S.C. § 1 *et seq.*, and particularly 35 U.S.C. §§ 271 and 281.

2. A parallel complaint in the United States International Trade Commission ("ITC") for an investigation under Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, was contemporaneously filed with Lexmark's original complaint in this action based upon the unlawful importation into the United States, the sale for importation and/or the sale within the United States after importation, of unauthorized, aftermarket toner cartridges, which are complained of herein, for use with Lexmark printers. *In the Matter of Certain Toner Cartridges and Components Thereof*, Inv. No. 337-TA-740 (International Trade Commission).

3. On September 27, 2011, the ITC determined that the Respondents identified in the ITC complaint (*i.e.*, the Defendants named in Lexmark's original complaint in this action) infringed Lexmark's patents. (Exhibit 1). The ITC entered a General Exclusion Order prohibiting, *inter alia*, the importation of toner cartridges and components thereof that are

covered by one or more of Lexmark's asserted patent claims. (Exhibit 2). The ITC also entered Cease and Desist Orders prohibiting the Defendants named in Lexmark's original complaint from importing, making, advertising, distributing, and transferring toner cartridges and components thereof that are covered by one or more of Lexmark's asserted patent claims. (*Id.*).

4. Since the filing of Lexmark's original complaint in this action, the Court has entered Stipulated Permanent Injunction Orders against the Defendants named in the original complaint, certain of the Defendants named in the first amended complaint, as well as numerous John Doe Defendants. (*See* D.E. 85, 87, 90, 91, 93, 96, 97, 100, 101, 103, 105, 114, 122, 129-134, 146-152, 157-159, 164, 176-181, 184, 185, 188, 189, 194-196, 199-201, 212, 214, 227, 280, 281, 297, 304, 350, 351, 358-361, 411, 417). The Stipulated Injunction Orders prohibit, *inter alia*, the manufacture, use, sale, offer for sale or importation into the United States toner cartridges that infringe Lexmark's asserted patent claims. (*See id.*).

THE PARTIES

Plaintiff – Lexmark International Inc.

5. Lexmark is a Delaware corporation with its principal place of business in Lexington, KY. Lexmark is a leading worldwide developer, manufacturer, and supplier, of *inter alia*, of laser printers and toner cartridges.

6. Lexmark develops and owns most of the technology for its laser printers and associated supplies. This differentiates Lexmark from a number of its major competitors.

7. Lexmark's research and development activity for the past several years has focused on, *inter alia*, laser printers and printer supplies. The process of developing new technology products is complex and requires innovative designs that anticipate customer needs and technological trends. Lexmark's research and development expenditures were $375 million in 2009, $423 million in 2008, $401 million in 2007, $371 million in 2006, $336 million in 2005, $312 million in 2004, $266 million in 2003, $247 million in 2002, $246 million in 2001, $217 million in 2000, and $184 million in 1999.

8. Over the years, Lexmark has developed numerous models of monochrome laser printers, including the E120, E220, E230, E232, E234, E238, E240, E250, E260, E320, E322, E321, E323, E330, E332, E340, E342, E350, E352, E360, E450, E460, E460, T520, T522, X520, X522, T610, T612, T614, T616, T620, T622, X620, T630, T632, T634, T640, T642, T644, T650, T652, T654, T656, X650, X651, X652, X653, X654, X655, and X656 series printers, and the equivalent monochrome laser printers sold under private label, including the Dell 1700, Dell 1700N, Dell 1710, Dell 1720, Dell 2230, Dell 2330, Dell 235 Technologies 0, Dell 3330, Dell 3333, Dell 3335, Dell 5200, Dell 5210, Dell 5300, Dell 5310, Dell 5230, Dell 5350, Dell 5530, Dell 5535, Dell E220, IBM 1116, IBM 1312, IBM 1412, IBM 1512, IBM 1512N, IBM infoPrint 1120, IBM InfoPrint 1125, IBM Infoprint 1130, IBM Infoprint 1140, IBM InfoPrint 1332, IBM Infoprint 1352, IBM Infoprint 1372, IBM InfoPrint 1532, IBM Infoprint 1552, IBM Infoprint 1572, IBM Infoprint 1832, IBM Infoprint 1850, IBM Infoprint 1852, IBM Infoprint 1860, IBM Infoprint 1870, IBM Infoprint 1872, IBM Infoprint 1880, IBM Infoprint 1892, InfoPrint 1601, InfoPrint 1602, InfoPrint 1612,

InfoPrint 1622, Infoprint 1822, IBM Infoprint 1823, IBM Infoprint 1930, IBM Infoprint 1940, Lenovo LI3900, LG 3510, LG 3350, LG 3850, LG 4010, Nashuatec P6220, Nashuatec P6225, Nashuatec P6230, Nashuatec 6240, Okidata MB780, Okidata MB790, Okidata 5500, Okidata 7180, Okidata 7190, Ricoh Afficio SP 4400, Ricoh Afficio SP 4410, Ricoh Afficio SP 4420, Sindoricoh 5000, Sindoricoh 5005, Sindoricoh 5050, Sindoricoh 4450, Sindoricoh 4550, Sindoricoh 4555, Sindoricoh 5450, Sindoricoh 5550, Source Technologies 9116, Source Technologies 9130, Source Technologies 9140, Source Technologies 9325, Source Technologies 9335, Source Technologies 9340, Source Technologies 9530n, Source Technologies 9550, Source Technologies 9552, Source Technologies 9630, Source Technologies 9650, Source Technologies 9620, Source Technologies 9622, Source Technologies ST 9120, Source Technologies 9125, Toshiba e-Studio 20P, Toshiba e-Studio 25P, Toshiba e-Studio 30P, Toshiba e-Studio 40P, Toshiba e-Studio 400P, Toshiba e-Studio430, Toshiba e-Studio 530, Toshiba e-Studio 450P, Toshiba e-Studio 500P, Toshiba e-Studio 500P, Unisys 134, Unisys 136, Unisys UDS 130, Unisys UDS 132, Unisys UDS 640n, Unisys UDS 650n, Unisys UDS 140, Unisys UDS 142, Unisys UDS 540n, Unisys UDS 544n, Unisys UDS 630, Unisys UDS 635dn series printers.[1] In addition, Lexmark has designed and developed toner cartridges for each of these laser printer models and equivalents sold under private label.

9. Lexmark is the assignee and owner of a number of United States patents that cover various as-

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[1] Exhibit 3 attached hereto is a chart identifying which laser printer models sold under private label are equivalent to Lexmark's laser printer models.

pects of its toner cartridges including, for example, the "Patents-in-Suit," which are set forth below. True and correct copies of the Patents-in-Suit are attached as Exhibits 4 - 24.

United States Pat. No.	Title	Exhibit
5,337,032 ("the '032 Patent")	Reduced Component Toner Cartridge	4
5,634,169 ("the '169 Patent")	Multiple Function Encoder Wheel For Cartridges Utilized In An Electrophotographic Output Device	5
5,758,231 ("the '231 Patent")	Venting Plug In Toner Cartridge	6
5,758,233 ("the '233 Patent")	Toner Cartridge With Locating [Surfaces] On Photoconductor Shaft	7
5,768,661 ("the '661 Patent")	Toner Cartridge With External Planar Installation Guides	8
5,802,432 ("the '432 Patent'")	Toner Cartridge with Housing and Pin Construction	9
5,875,378 ("the '378 Patent")	Toner Cartridge With Hopper Exit Agitator	10
5,995,772 ("the '772 Pa-	Imaging Apparatus Cartridge Including An	11

United States Pat. No.	Title	Exhibit
tent")	Encoded Device	
6,009,291 ("the '291 Patent")	Control Of Photosensitive Roller Movement	12
6,078,771 ("the '771 Patent")	Low Friction Doctor Blade	13
6,397,015 ("the '015 Patent")	Encoded Device Having Positioned Indicia For Use With A Toner Cartridge	14
6,459,876 ("the '876 Patent")	Toner Cartridge	15
6,487,383 ("the '383 Patent")	Dynamic End-Seal For Toner Development Unit	16
6,496,662 ("the '662 Patent")	Optical Toner Low Sensor	17
6,678,489 ("the '489 Patent")	Two Part Cartridges With Force Biasing By Printer	18
6,816,692 ("the '692 Patent")	Support Assembly For Roller Including Roller Body And Support Shaft	19
6,871,031 ("the '031 Pa-	Coupling Mechanism For A Two Piece Print-	20

United States Pat. No.	Title	Exhibit
tent")	er Cartridge	
6,879,792 ("the '792 Patent")	Two Part Cartridges With Force Biasing By Printer	21
7,139,510 ("the '510 Patent")	Two Part Cartridges With Force Biasing By Printer	22
7,233,760 ("the '760 Patent")	Method and Device for Doctor Blade Retention	23
7,305,204 ("the '204 Patent")	Two Part Cartridges With Force Biasing By Printer	24

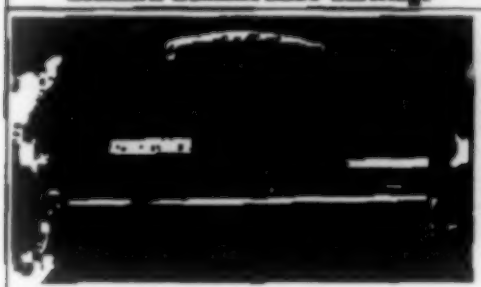
10. The Patents-In-Suit are valid and enforceable. In fact, myriad Defendants and John Doe Defendants have expressly agreed to the validity and enforceability of the Patents-in-Suit in court filings, public statements, and confidential settlement agreements.

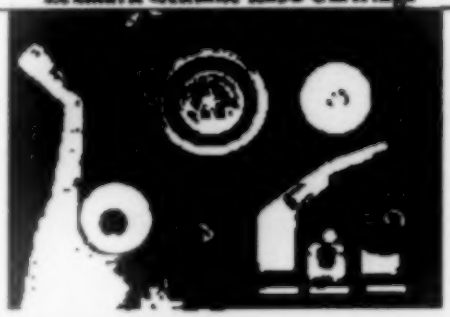
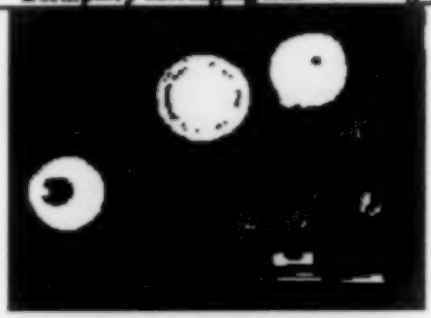
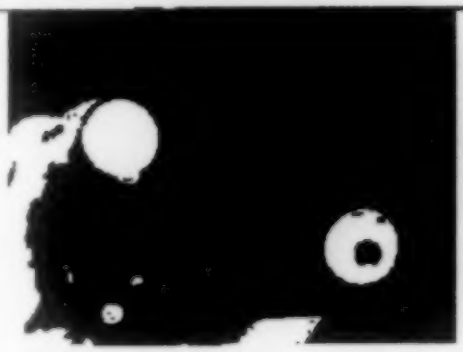
Defendants Generally

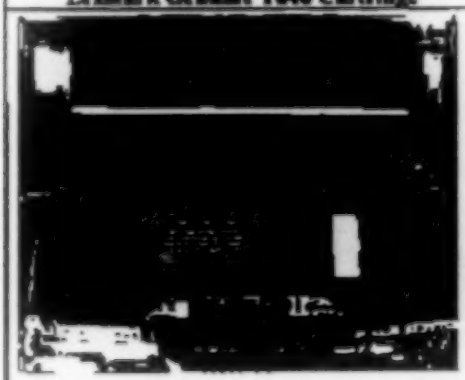
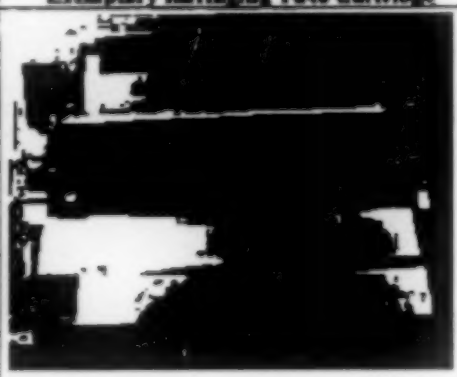
11. Defendants remanufacture, manufacture, sell for importation, import, distribute, offer to sell, and/or sell unauthorized aftermarket toner cartridges, developer assemblies, and photoconductor assemblies that are intended as substitutes for use with one or more of Lexmark's E120, E220, E230, E232, E234, E238, E240, E250, E260, E320, E322, E321, E323, E330, E332, E340, E342, E350, E352, E360, E450, E460, E460, T520, T522, X520, X522, T610, T612, T614, T616, T620, T622, X620, T630, T632, T634, T640, T642, T644, T650, T652, T654,

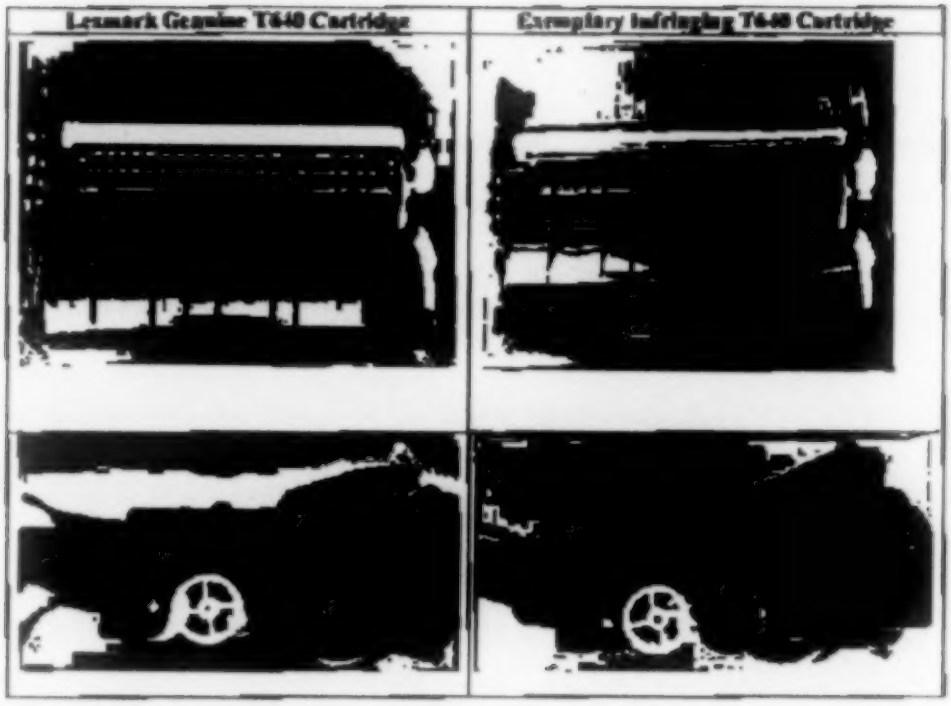
T656, X650, X651, X652, X653, X654, X655, and/or X656 laser printer series and the equivalent laser printer models sold under private label identified in Paragraph 8 above and in Exhibit 3, including clones as well as remanufactured versions of these cartridges and assemblies that originally were first sold outside of the United States (collectively, "the Accused Cartridges").

12. The clone and remanufactured versions of these Accused Cartridges have the same patented components as Lexmark's original, patented components. This can be seen, for example, by the following exemplary side-by-side comparison of Lexmark's patented E250 cartridge to an exemplary infringing E250 cartridge, and side-by-side comparison of Lexmark's patented T640 cartridge to an exemplary infringing T640 cartridge:

Lexmark Genuine E250 Cartridge	Exemplary Infringing E250 Cartridge
	

Lexmark Genuine E250 Cartridge	Exemplary Infringing E250 Cartridge
	
	

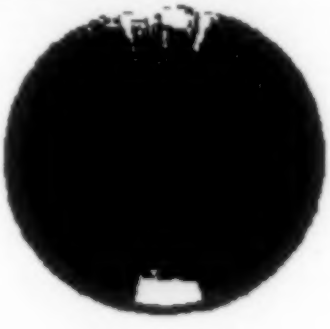
Lexmark Genuine T640 Cartridge	Exemplary Infringing T640 Cartridge
	



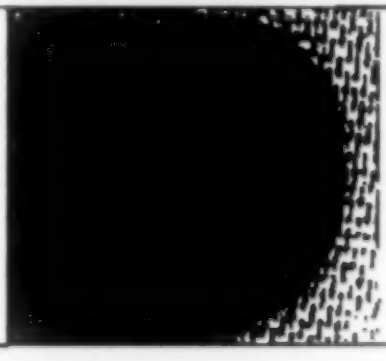
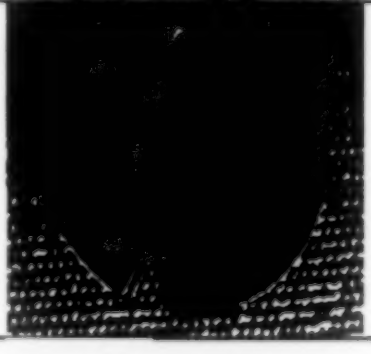
13. The clone cartridges are mere copies of Lexmark's genuine toner cartridges and for a particular model and blatantly duplicate the components of Lexmark's patented toner cartridges. Likewise, the remanufactured cartridges first sold outside the United States are, in all relevant respects, identical to Lexmark's patented toner cartridges. In other words, the remanufactured versions continue to practice Lexmark's patents just as when those cartridges were originally manufactured and sold by Lexmark.

14. For example, this can be seen by the below side-by-side comparison of Lexmark's patented encoder wheels, disclosed and claimed in Lexmark's '015 patent, to encoder wheels taken from infringing cartridges.

Lexmark Patented Encoder Wheel	Encoder Wheel Taken From An Exemplary Infringing Cartridge

Lexmark Patented Encoder Wheel	Encoder Wheel Taken From An Exemplary Infringing Cartridge
	

15. Similarly, below is a side-by-side comparison of Lexmark's patented roller bearing, disclosed and claimed in Lexmark's '692 patent, to a roller bearing from an infringing cartridge.

Lexmark Patented Roller Bearing	Roller Bearing Taken From An Exemplary Infringing Cartridge
	

16. The table set forth below identifies which patent claims are infringed by which Accused Cartridges.

Lexmark's Patents	Toner Cartridges						
	E120	E23X/E24X/ E33X/E34X	E260/ E360/E460	E25X/ E35X/E45X	T52X/T61X/ T62X/T63X/ T64X/T65X	E320/ E322	E220 and E321/E323
5,337,882					1,5,6		
5,634,169			32,36,42		1-3,32-34, 36,42	32,36,42	32,36,42
5,758,151		1-16	1-16	1-16		1-16	1-16
5,758,233					1-4		
5,768,661					1,2,3,6		
5,802,432					1-3, 7-9		
5,875,378					1-3,12-14,24		
5,995,772			14,15,22, 33-34		1-3,5,7-9, 12,14-18,20,21	14,15,22, 32-34	14,15,22, 32-34
6,009,291	1-2	1-2	1-2	1-2	1-2		
6,078,771	1,5,6,10, 12,13,15	1,5,6,10, 12,13,15	1,5,6,10, 12,13,15	1,5,6,10, 12,13,15	1,2,5,6,10, 12,13,15		
6,307,015			1,2,4, 9,17,19		1-4,7-12, 14-19,22-24	1,2,4, 9,17,19	1,2,4, 9,17,19
6,450,876					1-28		
6,487,383	1,2,6, 10,15,19	1,2,6, 10,15,19	1,2,6, 10,15,19	1,2,6, 10,15,19	1,2,6,10, 11,15,19	19	19
6,496,662		1,3,5,7		1,3,5,7			
6,678,489		5, 6	5, 6	5, 6			
6,816,692	1-13	1-13	1-13	1-13			
6,871,051		1-6,8-12	1-6,8-12	1-6,8-12			
6,978,702		1-11	1-11	1-11			
7,139,510		1-10	1-10	1-10			
7,233,760	1-10, 11,12,14	1-10, 11,12,14	1-10, 11,12,14	1-10, 11,12,14			

Lexmark's Patents	Toner Cartridges						
	E120	E23X/E24X/ E33X/E34X	E260/ E360/E460	E25X/ E35X/E45X	T52X/T61X/ T62X/T63X/ T64X/T65X	E320/ E322	E220 and E321/E323
7,305,204		1-20	1-20	1-8,10-13			

Defendants Specifically

17. Lexmark's investigation and discovery of the unauthorized remanufacture, importation, distribution, offers for sale, and/or sale of the Accused Cartridges continues. For example, Lexmark currently has subpoenas to several potential Defendants now pending that seek documents and deposition discovery regarding their unauthorized remanufacture,

importation, distribution, offers for sale, and/or sale of the Accused Cartridges. Upon completion of such discovery, Lexmark may identify additional Defendants in the present case. In the meantime, Lexmark is aware of at least the Defendants identified below.

18. On information and belief, Defendant Blue Trading LLC ("Blue Trading") is a corporation organized under the laws of Florida having a principal place of business located at 9272 NW 101st Street, Medley, FL 33178. On information and belief, Blue Trading operates a website htpp://www.blue tradingus.com, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.bluetradingus.com.

19. On information and belief, Defendant Core Servicios Informaticos S.I. ("Core Servicios") is corporation organized under the laws of Spain having a principal place of business located at Calle Resina, 29 Nave D, 28021 Madrid, Spain. On information and belief, Core Servicios operates a website http://www.core-global.com, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.core-global.com. On information and belief, Core Servicios has imported Accused Cartridges into the United States for sale to other Defendants.

20. On information and belief, Defendant Direct Billing International Incorporated ("Direct Billing") is a corporation organized under the laws of California with a principal place of business at 5910 Sea Lion Place, Suite 100, Carlsbad, CA 92010, and further address at P.O. Box 2789, Carlsbad, CA 92018. On information and belief, Direct Billing does business

as Office Supply Outfitters, and operates a website at http://www.officesupplyoutfitters.com, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the websites http://www.officesupplyoutfitters.com.

21. On information and belief, Defendant Eco Service China Ltd. ("Eco Service China") is a corporation organized under the laws of China having a principal place of business at Room A, 9th Floor, Queen's Centre, 58-64 Queen's Road East, Wan Chai, Hong Kong. On information and belief, Eco Service China has imported Accused Cartridges into the United States for sale to other Defendants.

22. On information and belief, Defendant Eco Service Sp. z o.o. ("Eco Service Poland") is a foreign corporation having a principal place of business at ul. Atramentowa 5, Bielany Wroclawskie, 55-040 KOBIERZYCE, Poland. On information and belief, Eco Service Poland is affiliated with and/or does business as Eco Service China. On information and belief, Eco Service Poland has imported Accused Cartridges into the United States for sale to other Defendants.

23. On information and belief, Defendant Enviro Green Technologies is a corporation organized under the laws of South Africa having a principal place of business located at 3 Roper Street, Unit D, Johannesburg, South Africa. On information and belief, Enviro Green Technologies has imported Accused Cartridges into the United States for sale to other Defendants.

24. On information and belief, Defendant Exprint International, Inc. is a corporation organized under the laws of California having a principal place of

business located at 20515 E Walnut Drive N, Unit C3, Walnut, CA 91789. On information and belief, Exprint International, Inc. operates a website http://www.exprintinc.com, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.exprintinc.com.

25. On information and belief, Defendant FBA Holding, Inc. is a corporation organized under the laws of Florida having its principal place of business located at 200 Fentress Boulevard, Suite B, Daytona Beach, FL 32114. FBA Holding, Inc. does business under several names, including Core Recovery Company, Unitone Imaging Supply, Unitone Imaging Group, Martek Supply Source, Imcopex America, Velox Systems, Inc. and International Digital Solutions (collectively "FBA Holding"). On information and belief, FBA Holding operates several websites, including http//www. corerecovery.com., http:// www.ununitone.com, http://www.martekonline.com, http://www.imcopexmarerica.com, and www. idscopier.com, all of which are accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the websites http://www.corerecovery.com, http://www.unitone. com, http://www.martekonline.com, http://www.imco pexmarerica.com, and www.idscopier.com.

26. On information and belief, Defendant Green Project, Inc. ("Green Project") is a corporation organized under the laws of California having a principal place of business located at 15335 Don Julian Rd, Hacienda Heights, CA 91745. On information and belief, Green Project operates a website http://www.greenprojectinc.com, which is accessible in this judicial district. On information and belief,

the Accused Cartridges are offered for sale on the website http://www.greenprojectinc.com.

27. On information and belief, Defendant Hock Group LLC d/b/a ProfessorInk.com ("Hock Group") is a corporation organized under the laws of Indiana having a principal place of business located at 9505 Marquis Lane, For Wayne, Indiana 46835. On information and belief, Hock Group operates a website, www.professorink.com, which is accessible in this judicial district. On information and belief, Hock Group offers for sale and sells the Accused Cartridges.

28. On information and belief, Defendant Impression Products, Inc. is a corporation organized under the laws of West Virginia having a principal place of business located at 129 Dutch Road, Charleston, WV 25302. On information and belief, Impression Products, Inc. operates a website http://www.charlestonprinterservice.com, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.charleston printer.com.

29. On information and belief, Defendant Interseroh Product Cycle GmbH ("Interseroh") is a corporation organized under the laws of Germany having a principal place of business at Ackerstraße 60, 49084 Osnabrück, Germany. On information and belief, Interseroh Product Cycle GmbH operates a website http://www.interseroh.de/en, which is accessible in this judicial district. On information and belief, Interseroh has imported Accused Cartridges into the United States for sale to other Defendants.

30. On information and belief, Defendant LD Products, Inc. d/b/a 4inkjets.com, Monstertoner.com, Inkcartridges.com, Inkcartridge.com, and 123inkjets.com is a corporation organized under the laws of California having a principal place of business located at 3700 Cover Street, Long Beach, CA 90808. On information and belief, LD Products, Inc. operates websites http://www.ldproducts.com, www.4inkjets.com, http://www.monstertoners.com, http://www.inkcartridges.com, http://www.inkcartridge.com, and http://www.123inkjets.com, all of which are accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the websites http://www.ldproducts.com, www.4inkjets.com, http://www.monstertoners.com, http://www.inkcartridges.com, http://www.inkcartridge.com, and http://www. 123inkjets.com.

31. On information and belief, Defendant LTS Consumables, Inc. ("LTS Consumables") is a corporation organized under the laws of California having a principal place of business located at 15306 E Valley Blvd, La Puente, CA 91746. On information and belief, LTS Consumables sells and has imported into the United States Accused Cartridges.

32. On information and belief, Defendant MBC Trading, Inc. ("MBC Trading") is a corporation organized under the laws of California having a principal place of business located at 12936 South Figueroa Street, Los Angeles, CA 90061. On information and belief, MBC Trading imports and sells Accused Cartridges.

33. On information and belief, Defendant N & L Global Co. d/b/a N & L Global Corporation ("N & L Global") is a corporation organized under the laws of California having a principal place of business locat-

ed at 2300 Peck Road, City of Industry, CA 90601. On information and belief, N & L Global operates a website, http://www.nlglobalco.com, which is accessible in this judicial district. On information and belief, N & L Global imports and sells Accused Cartridges.

34. On information and belief, Defendant NGS S.A. is a corporation organized under the laws of Chile having a principal place of business located at Avenida Cordillera 321 - C8, Quilicura, Chile. On information and belief, NGS S.A. operates a website http://www.ngschile.com, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.ngschile.com. On information and belief, NGS S.A. has imported Accused Cartridges into the United States for sale to other Defendants.

35. On information and belief, Defendant Onlinetechstores.com, Inc. d/b/a Supplierswholesalers.com is a corporation organized under the laws of Nevada having a principal place of business located at 1335 Greg Street, Suite 107, Sparks, NV 89431. On information and belief, Onlinetechstores.com, Inc. operates a website http://www.supplierswhole-salers.com, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.supplierswholesalers.com.

36. On information and belief, Defendant OW Supplies Corp. d/b/a www.officeand warehousesupplies.com ("OW Supplies") is a corporation organized under the laws of California having a principal place of business located at 2300 Peck Rd., City of Industry, California 90601. On information and belief, OW Supplies operates a website,

www.officeandwarehousesupplies.com, which is accessible in this judicial district. On information and belief, OW Supplies offers for sale and sells the Accused Cartridges.

37. On information and belief, Defendants Prinko Image Co. (USA), Inc. ("Prinko Image") is a corporation organized under the laws of California having a principal place of business located at 17907 Arenth Avenue, City of Industry, CA 91748. On information and belief, Prinko Image operates a website http://www.zhprinko.cn, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.zhprinko.cn.

38. On information and belief, Defendant Recyca BVBA is a corporation organized under the laws of Belgium having a principal place of business located at Delften 23/65, 2390 Malle, Belgium. On information and belief, Recyca BVBA operates a website http://www.recyca.be, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.recyca.bc. On information and belief, Recyca BVBA has imported Accused Cartridges into the United States for sale to other Defendants.

39. On information and belief, Defendant Refiltoner is a corporation organized under the laws of Ecuador having a principal place of business at 6 de Diciembre N23-64 Edf. Famer Piso 3, Quito, Pichincha, Ecuador. On information and belief, Refiltoner operates a website http://www.refiltoner.com, which is accessible in this judicial district. On information and belief, Refiltoner has imported Accused Cartridges into the United States for sale to other Defendants.

40. On information and belief, Defendant Shanghai Orink InfoTech International Co., Ltd. is a corporation organized under the laws of China having a principal place of business at Room 307, No. 275-8, East Guoding Road, Shanghai, China 200433. On information and belief, Shanghai Orink InfoTech International operates a website http://www.orink.com, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.orink.com. On information and belief, Shanghai Orink InfoTech International has imported Accused Cartridges into the United States for sale to other Defendants.

41. On information and belief, Defendant Sinotime Technologies, Inc. d/b/a 2Stoner.com ("Sinotime") is a corporation organized under the laws of Florida having a principal place of business located at 3100 NW 72nd Avenue 106, Miami, Florida 33122. On information and belief, Sinotime operates a website, www.2Stoner.com, which is accessible in this judicial district. On information and belief, Sinotime offers for sale and sells Accused Cartridges.

42. On information and belief, Defendant Tech Optics, Inc. ("Tech Optics") is a corporation organized under the laws of Florida having a principal place of business located at 10882 Southwest 188th St., Miami, FL 33157. On information and belief, Tech Optics operates a website, http://www.techoptics inc.com, which is accessible in this judicial district. On information and belief, the Accused Cartridges are offered for sale on the website http://www.techoptics.com.

43. On information and belief, Defendant Tesen Development (Hong Kong) Co. Ltd. is a corporation organized under the laws of China having a principal

place of business at Room 8, 6/F, Shun on Comm Building, 112-114 Des Voeux Road, Central Hong Kong, Hong Kong. On information and belief, Tesen Development (Hong Kong) Co. Ltd. is affiliated with and/or does business as Tesen Shongshan-Zonton Printer Accessory Co., Ltd., which has a business address at No. 5 Shagangzhong Road, Taifong Industrial Zone, Gangkou Town, Zhongshan, Guangdong, China (collectively "Tesen"). On information and belief, Tesen operates a website www.tstoner.com, which is accessible in this judicial district. On information and belief, Tesen has imported Accused Cartridges into the United States for sale to other Defendants.

44. On information and belief, Defendant TonerLand is owned by Sercomp, LLC, a California corporation having a principal place of business located at 1601 W. 190th St., Gardena, CA 90248. On information and belief, TonerLand operates a website, www.tonerland.com, which is accessible in this judicial district. On information and belief, TonerLand sells Accused Cartridges.

45. On information and belief, Defendant Zhuhai Aicon Image Co., Ltd. ("Aicon") is a corporation organized under the laws of China having a principal place of business located at Room516 Block A, Leaguer Building, Tsinghua Science Park, No.101 College Rd., 519080 Tang jia wan, Zhuhai, China. On information and belief, Aicon operates a website, www.iaicon.com, which is accessible in this judicial district. On information and belief, Aicon has imported Accused Cartridges into the United States for sale.

46. On information and belief, Defendant Zhuhai Richeng Development Co., Ltd. is a corporation or-

ganized under the laws of China having a principal place of business located at Building 6/F, No. 10, Shihua No. 3 Lane, Nanshan Industrial Zone, Zhuhai, China 519015. On information and belief, Zhuhai Richeng Development Co., Ltd. operates a website http://www.richeng.cn/en/, which is accessible in this judicial district. On information and belief, Zhuhai Richeng Development Co., Ltd. has imported Accused Cartridges into the United States for sale to other Defendants.

47. On information and belief, John Does 1-20 remanufacture, manufacture, import, distribute, offer for sale, and/or sell Accused Cartridges. Lexmark currently has subpoenas to several John Does now pending that seek documents and deposition discovery regarding their unauthorized remanufacture, importation, distribution, offers for sale, and/or sale of Accused Cartridges. Upon completion of such discovery, Lexmark may specifically identify such John Does as Defendants in the present case.

JURISDICATION AND VENUE

48. This Court has subject matter jurisdiction over this dispute pursuant to 28 U.S.C. §§ 1331 and 1338(a). This Court also has supplemental jurisdiction over Lexmark's Breach of Representation and Warranty claim in this dispute pursuant to 28 U.S.C. § 1367.

49. On information and belief, this Court has personal jurisdiction over Defendants located in the United States because they have been and/or are engaged in substantial and continuous business activities in this judicial district and/or have committed acts of infringement in this judicial district.

50. On information and belief, the Defendants have sufficient minimum contacts and are subject to personal jurisdiction in Ohio because they know that the Accused Cartridges they remanufacture, sell for importation, import, distribute, offer for sale, and/or sell enter Ohio through the stream of commerce and because they intentionally serve the United States market, including Ohio, by indirectly shipping the Accused Cartridges there. On information and belief, Defendants also operate websites that serve as channels for advertising and selling the Accused Cartridges to customers in Ohio, and/or regularly providing and receiving information and advice to and from customers in Ohio. The Accused Cartridges are easily sold over the Internet by entities, including Defendants, which have sought to mask their identities through the use of multiple corporations and fictitious business names. Even with physical presence in the United States or this judicial district, the Internet allows the entities selling the Accused Cartridges to have deep reach into the United States and this judicial district for a very low cost.

51. On information and belief, this Court has personal jurisdiction over Defendants located outside the United States under Fed. R. Civ. P. 4(k)(2), because they are not subject to jurisdiction in any state's court of general jurisdiction and exercising jurisdiction is consistent with the United States Constitution and laws.

52. Venue is proper in this judicial district pursuant to 28 U.S.C. §§ 1391(b)(2), 1391(c), 1391(d), and 1400(b).

COUNT I – PATENT INFRINGEMENT

53. Lexmark incorporates herein the allegations of paragraphs 1 through 54 above specifically by reference.

54. On information and belief, Defendants import, remanufacture, offer to sell, and/or sell after importation into the United States one or more of the Accused Cartridges and/or components thereof.

55. On information and belief, certain of the Accused Cartridges utilize the same patented technology that is found in the Lexmark genuine toner cartridges. In particular, the clone and remanufactured toner cartridges imported, sold and/or offered for sale by Defendants utilize the Patents-in-Suit that cover the same patented components found in Lexmark's genuine toner cartridges.

56. Lexmark has never licensed or permitted Defendants to practice any of the legal rights granted under the Patents-in-Suit.

57. On information and belief, Defendants' remanufacturing, importing, offering to sell, and/or selling of one or more of the Accused Cartridges and/or components thereof in the United States constitutes direct patent infringement under 35 U.S.C. § 271(a) of the '032, '169, '231, '233, '661, '432, '378, '772, '291, '771, '015, '876, '383, '662, '692, '510, '760, and/or '204 Patents.

58. On information and belief, Defendants' remanufacturing, importing, offering to sell, and/or selling of one or more of the Accused Cartridges and/or components thereof, including developer assemblies, in the United States constitutes contributory patent infringement under 35 U.S.C. § 271(c) of

the '489, '031, and/or '792 Patents. Defendants have knowledge of the '489, '031, and '792 Patents and their acts giving rise to contributory infringement.

59. On information and belief, Defendants' infringement has been, and continues to be, with full knowledge of the Patents-in-Suit and is deliberate and willful infringement thereof.

60. By reason of Defendants' infringement of the Patents-in-Suit, Defendants have caused and continue to cause Lexmark to suffer damage and irreparable harm.

61. Lexmark has no adequate remedy at law for Defendants' infringement of the Patents-in-Suit.

62. On information and belief, Defendants' infringement of the Patents-in-Suit will continue unless enjoined by this Court.

COUNT II – BREACH OF REPRESENTATION AND WARRANTY

63. Lexmark incorporates herein the allegations of paragraphs 1 through 64 above specifically by reference.

64. Lexmark entered into settlement agreements with Defendant Tech Optics relating to Tech Optics' remanufacturing, importing, offering to sell, and/or selling Accused Cartridges. The agreements required entry of Stipulated Permanent Injunction, Consent Judgment, and Dismissal With Prejudice, wherein Tech Optics expressly represented and warranted that Tech Optics "disclosed to Lexmark the quantity and type of all Accused Cartridges that it made, used, sold, offered for sale, or imported into the United States." (D.E. 195, ¶ 10).

65. Disclosure of all Accused Cartridges by Tech Optics was a condition precedent to Lexmark entering into the settlement agreement and the Stipulated Permanent Injunction, Consent Judgment, and Dismissal With Prejudice.

66. Despite knowing that disclosure of all Accused Cartridges to Lexmark was a condition precedent to settlement, Tech Optics failed to disclose thousands of Accused Cartridges to Lexmark.

67. Lexmark entered into the settlement agreement and Stipulated Permanent Injunction, Consent Judgment, and Dismissal With Prejudice based on Tech Optics' misrepresentations regarding the quantity and type of all Accused Cartridges that Tech Optics made, used, sold, offered for sale, or imported into the United States.

68. Lexmark sustained damages because of Tech Optics' breach of representation and warranty and failure to disclose all Accused Cartridges to Lexmark.

JURY DEMAND

In accordance with the Seventh Amendment of the United States Constitution, Lexmark demands a trial by jury on all issues so triable.

PRAYER FOR RELIEF

WHEREFORE, Lexmark prays that:

a) Pursuant to 35 U.S.C. § 271, this Court enter judgment that the Defendants have been and are currently infringing the Patents-in-Suit;

b) Defendants, their officers, agents, servants, employees, assigns, successors in interest, and attorneys, and all those in active concert or participation

with them who received actual notice of the injunction, by personal service or otherwise, be permanently enjoined from infringing the Patents-in-Suit;

c) Defendants be directed to pay Lexmark the amount of damages that it has sustained as a result of Defendants' acts of patent infringement, and that such damages be trebled under 35 U.S.C. § 284;

d) This be declared an exceptional case under 35 U.S.C. § 285;

e) Lexmark be awarded its attorneys' fees;

f) Defendants be directed to pay an award of prejudgment interest, post-judgment interest, and costs of the suit to Lexmark;

g) This Court enter judgment against Tech Optics for breach of representation and warranty;

h) Tech Optics be directed to pay Lexmark all of its damages associated with Tech Optics' breach of representation and warranty; and

i) Lexmark be granted such other further relief as the Court may deem proper and just.

Respectfully submitted,

Dated: November 1, 2013

/s/ Jason S. Shull
P. Douglas Barr
(Ohio Bar No. 20868)
Steven B. Loy
Anthony J. Phelps
STOLL KEENON
OGDEN PLLC

300 West Vine Street, Suite
2100 Lexington, KY 40507
Telephone: (859) 231-3000
Facsimile: (859) 253-1093

William J. Hunter, Jr.
STOLL KEENON
OGDEN PLLC
2000 PNC Plaza 500
West Jefferson Street
Louisville, KY 40202
Telephone: (502) 333-6000
Facsimile: (502) 333-6099

Timothy C. Meece
V. Bryan Medlock
Jason S. Shull
Audra C. Eidem Heinze
BANNER & WITCOFF LTD.
10 South Wacker Drive,
Suite 3000
Chicago, Illinois 60606
Telephone: (312) 463-5000
Facsimile: (312) 463-5001

Attorneys for Plaintiff,
Lexmark International, Inc.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
CINCINNATI DIVISION
FILED UNDER SEAL

LEXMARK INTERNATIONAL, INC.
Plaintiff,
v.
INK TECHNOLOGIES PRINTER SUPPLIES, LLC, ET AL.
Defendants.

JOINT MOTION FOR ENTRY OF STIPULATED ORDER REGARDING SUPPLEMENTATION OF RECORD, LIMITED RECONSIDERATION TO THE EXTENT NECESSARY TO PRESERVE APPELLATE RIGHTS, FOR NON-INFRINGEMENT WITH RESPECT TO TONER CARTRIDGES FIRST SOLD INSIDE THE UNITED STATES, FOR INFRINGEMENT FOR TONER CARTRIDGES FIRST SOLD OUTSIDE THE UNITED STATES, AND FOR ENTRY OF FINAL JUDGMENT

Comes the Plaintiff Lexmark International, Inc. ("Lexmark") and Defendant Impression Products, Inc. ("Impression"), by counsel, and hereby jointly move the Court for entry of a "Stipulated Order:" (a) supplementing the district court record for appellate purposes, (b) reconsidering ECF 615 *(i.e.,* the Court's Opinion and Order regarding Lexmark's Return Program) in view of the supplemented record to the extent that the Court deems it necessary, (c) subject to and without waiver of Lexmark's appellate rights, entering judgment of no infringement under 35

U.S.C. § 271(a)—based on the Court's ruling in ECF 615—in favor of Impression and against Lexmark for Impression's sales of Return Program Cartridges (defined *infra*) that were first sold *inside* the United States, (d) subject to and without waiver of Impression's appellate rights, entering judgment of infringement under 35 U.S.C. § 271(a)—based on the Court's ruling in ECF 617—in favor of Lexmark and against Impression for its sales of Toner Cartridges (defined *infra*) that were first sold *outside* the United States and (e) directing entry of final judgment under Rule 58, Fed. R. Civ. P., based on the Stipulated Order. In support thereof, Lexmark and Impression jointly stipulate and agree as follows:

Background on the Parties

1. Lexmark is in the business of developing, manufacturing and selling laser printers and toner cartridges including toner cartridges for use with monochrome laser printers, including the Lexmark E120, Lexmark E220, Lexmark E230, Lexmark E232, Lexmark E234, Lexmark E238, Lexmark E240, Lexmark E250, Lexmark E260, Lexmark E320, Lexmark E322, Lexmark E321, Lexmark E323, Lexmark E330, Lexmark E332, Lexmark E340, Lexmark E342, Lexmark E350, Lexmark E352, Lexmark E360, Lexmark E450, Lexmark E460, Lexmark T520, Lexmark T522, Lexmark X520, Lexmark X522, Lexmark T610, Lexmark T612, Lexmark T614, Lexmark T616, Lexmark T620, Lexmark T622, Lexmark X620, Lexmark T630, Lexmark T632, Lexmark T634, Lexmark T640, Lexmark T642, Lexmark T644, Lexmark T650, Lexmark T652, Lexmark T654, Lexmark T656, Lexmark X651, Lexmark X652, Lexmark X654, Lexmark X656, and the equivalent monochrome la-

ser printers sold to original equipment manufacturers under private label, including, but not limited to, the Dell 1700, Dell 1700N, Dell 1710, Dell 1720, Dell 2230, Dell 2330, Dell 2350, Dell 3330, Dell 3333, Dell 3335, Dell 5200, Dell 5210, Dell 5300, Dell 5310, Dell 5230, Dell 5350, Dell 5530, Dell 5535, Dell E220, IBM 1116, IBM 1312, IBM 1412, IBM 1512, IBM 1512N, IBM InfoPrint 1120, IBM InfoPrint 1125, IBM InfoPrint 1130, IBM InfoPrint 1140, IBM InfoPrint 1332, IBM InfoPrint 1352, IBM InfoPrint 1372, IBM InfoPrint 1532, IBM InfoPrint 1552, IBM InfoPrint 1572, IBM InfoPrint 1832, IBM InfoPrint 1850, IBM InfoPrint 1852, IBM InfoPrint 1860, IBM InfoPrint 1870, IBM InfoPrint 1872, IBM InfoPrint 1880, IBM InfoPrint 1892, InfoPrint 1601, InfoPrint 1602, InfoPrint 1612, InfoPrint 1622, InfoPrint 1822, IBM InfoPrint 1823, IBM InfoPrint 1930, IBM InfoPrint 1940, Lenovo LI3900, LG 3510, LG 3350, LG 3850, LG 4010, Okidata MB780, Okidata MB790, Okidata 5500, Okidata 7180, Okidata 7190, Ricoh Afficio SP 4400, Ricoh Afficio SP 4410, Ricoh Afficio SP 4420, Sindoricoh 5000, Sindoricoh 5005, Sindoricoh 5050, Sindoricoh 4450, Sindoricoh 4550, Sindoricoh 4555, Sindoricoh 5450, Sindoricoh 5550, Source Technologies 9116, Source Technologies 9130, Source Technologies 9140, Source Technologies 9325, Source Technologies 9335, Source Technologies 9340, Source Technologies 9530n, Source Technologies 9550, Source Technologies 9552, Source Technologies 9630, Source Technologies 9650, Source Technologies 9620, Source Technologies 9622, Source Technologies ST 9120, Source Technologies 9125, Toshiba e-Studio 20P, Toshiba e-Studio 25P, Toshiba e-Studio 30P, Toshiba e-Studio 40P, Toshiba e-Studio 400P, Toshiba e-Studio 430, Toshiba e-Studio 530, Toshiba e-Studio 450P, Toshiba e-Studio 500P, Toshiba e-

Studio 500P, Unisys 134, Unisys 136, Unisys UDS 130, Unisys UDS 132, Unisys UDS 640n, Unisys UDS 650n, Unisys UDS 140, Unisys UDS 142, Unisys UDS 540n, Unisys UDS 544n, Unisys UDS 630, and Unisys UDS 635dn (collectively, "Toner Cartridges").[2]

2. Lexmark owns and has standing to sue for infringement of United States Patent Nos. 5,337,032; 5,634,169; 5,758,231; 5,758,233; 5,768,661; 5,802,432; 5,875,378; 5,995,772; 6,009,291; 6,078,771; 6,397,015; 6,459,876; 6,487,383; 6,496,662; 6,678,489; 6,816,692; 6,871,031; 6,879,792; 7,139,510; 7,233,760; and 7,305,204 (the "Patents-in-Suit").

3. Each of the Toner Cartridges literally satisfies one or more claims of one or more of the Patents-in-Suit as shown in the following Table 1.

Table 1

	Toner Cartridges*						
Patents-in-Suit	E120	E23X/E24X/E33X/E34X	E260/E360/E460	E25X/E35X/E45X	T62X/T61X/T62X/T63X/T64X/T65X	E320/E322	E220 and E321/E323
5,337,032					1, 5, 6		
5,634,169			32, 36, 42		1-3, 32-34, 36, 42	32, 36, 42	32, 36, 42
5,758,231		1-16	1-16	1-16		1-16	1-16
5,758,233					1-4		
5,768,661					1, 2, 3,6		
5,802,432					1-3, 7-9		
5,875,378					1-3, 12-14, 24		
5,995,772			14, 15, 22, 32-34		1-3, 5, 7-9, 12, 14-18, 20, 21	14, 15, 22, 32-34	14, 15, 22, 32-34
6,009,291	1-2	1-2	1-2	1-2	1-2		
6,078,771	1, 5, 6, 10, 12, 13, 15	1, 5, 6, 10, 12, 13, 15	1, 5, 6, 10, 12, 13, 15	1, 5, 6, 10, 12, 13, 15	1, 2, 5, 6, 10, 12, 13, 15		
6,397,015			1, 2, 4, 9, 17, 19		1-4, 7-12, 14-19, 22-24	1, 2, 4, 9, 17, 19	1, 2, 4, 9, 17, 19

[2] Exhibit A attached hereto is a chart identifying which laser printer models sold under private label are equivalent to Lexmark's laser printer models.

6,459,876					1-28		
6,487,383	1, 2, 6, 10, 15, 19	1, 2, 6, 10, 15, 19	1, 2, 6, 10, 15, 19	1, 2, 6, 10, 15, 19	1, 2, 6, 10, 11, 15, 19	19	19
6,496,682		1,3,5,7		1,3,5,7			
6,678,489		5, 6	5, 6	5, 6			
6,816,692	1-14	1-13	1-13	1-13			
6,871,031		1-8, 8-12	1-6, 8-12	1-6, 8-12			
6,879,792		1-11	1-11	1-11			
7,139,518		1-10	1-10	1-10			
7,233,760	1-10, 11,13,14	1-10, 11,12,14	1-10, 11,12,14	1-10, 11,12,14			
7,305,204		1-20	1-20	1-8, 10-13			

* The private label models corresponding to the Toner Cartridges identified in Table 1 are likewise covered by the respective Patents-in-Suit. *See* Exhibit A.

4.Impression is accused of, among other things, importing, remanufacturing, selling and offering to sell (1) Toner Cartridges first sold outside of the United States and (2) Toner Cartridges first sold in the United States under Lexmark's Return Program (defined *infra*).

The Court's Rulings on Impression's Rule 12(b)(6) Motions to Dismiss

5. On July 30, 2013, Impression filed a Motion to Dismiss pursuant to Rule 12(b)(6), Fed. R. Civ. P., with respect to Toner Cartridges first sold *outside* the United States. (ECF No. 335.) On September 16, 2013, Impression filed a Second Motion to Dismiss pursuant to Rule 12(b)(6), Fed. R. Civ. P., with respect to Lexmark's Return Program Cartridges first sold *inside* the United States. (ECF No. 395.)

6. On March 27, 2014, the Court issued its Opinions and Orders on Impression's Rule 12(b)(6) Motions to Dismiss (ECF Nos. 615 and 617). In the Opinion and Order granting Impression's Second Motion to Dismiss, the Court stated:

> Lexmark does not allege that the authority of the sellers of the Return Program cartridges were restricted or conditioned in any way. In other words, the facts alleged by Lexmark do not suggest that the sellers had anything other than full authority to sell the Return Cartridges that practiced Lexmark's patents. Instead, Lexmark alleges only that the Return Program cartridges contained notices of a license restriction which bound the ultimate purchaser. Under *Quanta*, those post-sale use restrictions do not prevent patent rights from being exhausted given that the initial sales were authorized and unrestricted.

(ECF No. 615 at 11.)

7. The parties stipulate that Lexmark was not required to include allegations, or provide evidence, to rebut Impression's affirmative defense of patent exhaustion under the standards applicable to Impression's Second Motion to Dismiss under Rule 12(b)(6), Fed. R. Civ. P. Nonetheless, in order to ensure that all appellate rights are preserved, to confirm that there is a complete record for the purposes of appeal, and to promote further judicial economy by obviating any need for Lexmark to file a motion for leave to amend its Second Amended Complaint under Rule 15, Fed. R. Civ. P., in order to address the Court's statement that there was a "lack of specific allegations in the Second Amended Complaint" with respect to Lexmark's contracts for its Toner Cartridges sold under the Return Program (ECF No. 615 at 2), the parties jointly stipulate to supplement the record as set forth herein.

The Lexmark Return Program

8. Lexmark offers purchasers of its Toner Cartridges two options: (1) a Toner Cartridge sold without conditions and for which Lexmark receives full compensation (hereafter, "Regular Cartridge(s)"), and (2) a Toner Cartridge that is physically identical to the Regular Cartridge, but is sold subject to express contractual conditions and a conditional single-use license and for which Lexmark receives reduced compensation (hereafter, "Return Program Cartridge(s)").[3] In particular, purchasers of a Return Program Cartridge receive an up-front discount on the purchase price of the Return Program Cartridge in exchange for agreeing to use the Return Program Cartridge only once (the single-use license) and to return the empty Return Program Cartridge only to Lexmark for remanufacturing or recycling (hereafter, the "Return Program condition").[4] The price of the Return Program Cartridge reflects the value of the property interest and use rights conveyed to the purchaser under the express terms of the conditional sale contract and conditional single-use license conferred by Lexmark.

9. Each Toner Cartridge also includes a microchip that securely communicates with the printer once installed.

10. The microchip on a Return Program Cartridge has certain performance-related functions. In addi-

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[3] Although a Regular Cartridges and its corresponding Return Program Cartridge are physically identical, as discussed in the following paragraphs, the Regular Cartridges and Return Program Cartridges employ different microchips.

[4] Return Program Cartridges were previously referred to as "Prebate" cartridges.

tion, the microchip enforces the express contractual Return Program condition. For example, using some of the patented technology at issue in this case (e.g., the encoder wheel of U.S. Pat. No. 6,397,015), the printer and microchip in many of the Toner Cartridges at issue in this case [5] keep track of how much toner is remaining in the Return Program Cartridge. The printer uses this information to improve print quality characteristics as toner is depleted over time through use. When all of the toner has been used, the microchip stores this fact in memory. If the Return Program Cartridge subsequently is refilled without authorization and an attempt is made to reuse the Return Program Cartridge in a printer in breach of the contractual terms and single-use license under which it was sold, the microchip in combination with the printer will recognize this fact and enforce the Return Program condition by precluding use of the unauthorized cartridge.

11. To circumvent this technological measure for enforcing the express contractual Return Program condition, third parties have "hacked" Lexmark's microchips and created their own "unauthorized replacement" microchips. These "unauthorized replacement" microchips are publicly sold by third parties who have no affiliation with Lexmark, no authorization from Lexmark to hack its microchips, and no authorization from Lexmark to sell its microchips. Thus, "unauthorized replacement" microchips exist in the marketplace and, if an unauthorized replacement microchip is installed on a Return Program Cartridge, the printer is fooled into believing that the

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[5] These Toner Cartridges include, but are not limited to, the E260, E360, E460, T52X, T61X, T62X, T63X, T64X, T65X, E320, E322, E220, E321, and E323 model cartridges.

Return Program Cartridge is authorized and can be used, overriding the technological protection despite the continued existence and effectiveness of the express contractual restriction on re-use of Return Program Cartridges.

12. The microchip on a Regular Cartridge performs the same toner monitoring function in order to maximize print quality characteristics. However, after all of the toner has been depleted, the Regular Cartridge can be refilled with toner or otherwise remanufactured without any problem. The Regular Cartridge can then continue to be re-used without limitation because it was sold without restrictions on re-use or sale, and at a price that reflected those greater rights; no technological measure prevents such authorized re-use. Consequently, the microchip on a Regular Cartridge never needs to be replaced and can be re-used as many times as desired.

13. The Return Program condition is identified on the Return Program Cartridges and on their packaging (in multiple languages), as well as on Lexmark's website. For example, the following language, or substantially similar language, is placed on the outside packaging of every Return Program Cartridge:

RETURN EMPTY CARTRIDGE
TO LEXMARK FOR RECYCLING

> Please read before opening. Opening this package or using the patented cartridge inside confirms your acceptance of the following license agreement. The patented Return Program cartridge is sold at a special price subject to a restriction that it may be used only once. Following this initial use, you agree to return the empty cartridge only to

> Lexmark for recycling. If you don't accept these terms, return the unopened package to your point of purchase. A regular price cartridge without these terms is available.

See, e.g., Exhibit B, photographs of the Return Program condition as it appears on the cartridge and the packaging of a Lexmark T650/T652/T654/T656 Return Program Cartridge.

14. Lexmark sells the Toner Cartridges, including Regular Cartridges and Return Program Cartridges, directly to end-user customers and directly or indirectly to certain authorized resellers ("Resellers"). The Resellers include direct sales by Lexmark to authorized supplies dealers, authorized distributors, office superstores, and original equipment manufacturers and indirect sales by Lexmark to independent dealers and direct marketing resellers.

15. Lexmark has an express and enforceable contractual agreement with each of its end-user customers, including those end-user customers who purchase Toner Cartridges directly from Lexmark. In exchange for agreeing to the express Return Program condition, those end-user customers receive consideration in the form of an up-front discount on the purchase price of the Return Program Cartridge. If an end-user customer does not wish to accept the Return Program condition and conditional single-use license of the Return Program Cartridge, and instead wishes to acquire a Toner Cartridge not subject to any conditions or restrictions on use or disposition, such an end-user costumer has the option of purchasing a Regular Cartridge and receiving such additional property interests and rights in return for paying full price. *See* Exhibit B; *Ariz. Cartridge Remanufac-*

turers Ass'n, Inc. v. Lexmark Int'l, Inc., 421 F.3d 981, 987 – 88 (9th Cir. 2005).

16. Lexmark has an express and enforceable contract with each of the authorized supplies dealers and authorized distributors. *See* Authorized Supplies Dealer Contracts attached collectively as Exhibit C and Authorized Distributor Contracts attached collectively as Exhibit D. Each contract provides that Lexmark may issue bulletins that change the terms of said contract. Lexmark has issued bulletins for each of the Toner Cartridges that bind each authorized supplies dealer[6] and authorized distributor to the Return Program condition and further provide that each Return Program Cartridge is sold pursuant to a conditional single-use license. *See* Supplies Marketing Bulletins attached collectively as Exhibit E.

17. Authorized supplies dealers participate in a marketing program called the Platinum Preferred Program, and authorized distributors participate in a marketing program called the Universal-Preferred Program. Both the Platinum Preferred Program and Universal-Preferred Program contain contractual terms that bind the authorized supplies dealers and authorized distributors, respectively, to the Return Program condition and further provide that each Return Program Cartridge is sold pursuant to a conditional single-use license. *See* Platinum Preferred Program Announcement attached as Exhibit F; Universal-Preferred Program Announcement attached as Exhibit G.

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[6] Lexmark's agreement with Reynolds and Reynolds, one of its authorized supplies dealers, obligates the dealer to review the terms of the Return Program with end-users, including the Return Program condition.

18. Lexmark has an express and enforceable contract with each of the independent dealers that participates in a marketing program called the S.T.A.R. Program. Each contract provides that the participating independent dealer agrees to be bound by the terms and conditions of the S.T.A.R. Program. *See* S.T.A.R. Program Enrollment Form exemplar attached as Exhibit H. The terms and conditions of the S.T.A.R. Program bind each participating independent dealer to the Return Program condition and further provide that each Return Program Cartridge is sold pursuant to a conditional single-use license. *See* S.T.A.R. Toner Supplies and Parts Rebate Program Announcement attached as Exhibit I.

19. Lexmark has an express and enforceable contract with each of the direct marketing resellers. Each contract provides that the direct marketing reseller agrees to be bound by the terms and conditions of the Direct Marketing Reseller Program. *See* Lexmark Supplies Program for DMR Resellers Enrollment Form exemplar attached as Exhibit J. The terms and conditions of the Direct Marketing Reseller Program bind each direct marketing reseller to the Return Program condition and further provide that each Return Program Cartridge is sold Pursuant to a conditional single-use license. *See* Platinum Preferred Program Announcement attached as Exhibit K.

20. Participating independent dealers and direct marketing resellers purchase Toner Cartridges only from authorized distributors.

21. Lexmark has an express and enforceable contract with each of the office superstores that incorporates the terms of the Return Program. *See* Office

Superstore Contracts attached collectively as Exhibit L.

22. Lexmark has an express and enforceable contract with each original equipment manufacturer ("OEM") identified in paragraph 1. *See* OEM Contracts attached collectively as Exhibit M. Pursuant to these contracts, Lexmark sells Toner Cartridges to OEMs who then sell the Cartridges under their own brand name. While Lexmark also sells Toner Cartridges to IBM, Lexmark is excluding IBM from the definition of "OEM" as used herein because Lexmark is not asserting infringement as to the Return Program Cartridges that it sells to IBM. Each of the OEM contracts incorporate the terms of the Return Program.

23. Lexmark sells the Return Program Cartridges to the Resellers at a discounted price, which reflects the value of the property rights and interests conveyed by Lexmark under the express conditional sale contract between the parties and the conditional single-use license conferred by Lexmark. The Resellers are only authorized to resell the Return Program Cartridges subject to the contractual Return Program condition. Lexmark also sells Regular Cartridges to the Resellers; in those unconditional transactions, the Resellers receive full rights to the Regular Cartridges and Lexmark receives full compensation in return.

Determination of Infringement Based on March 27 Opinions and Orders

24. To the extent the foregoing does not disturb the holding of this Court's Opinion and Order of March 27, 2014 (ECF No. 615), Lexmark and Impression stipulate that under this Court's Opinion

and Order of March 27, 2014 (*id.*), Impression's importation, remanufacture, sale, and offer for sale of Return Program Cartridges first sold in the United States does not constitute infringement of the Patents-in-Suit pursuant to 35 U.S.C. § 271 under the doctrine of patent exhaustion. If the foregoing does disturb the holding of this Court's Opinion and Order of March 27, 2014 (ECF No. 615), Lexmark and Impression request that the Court reconsider and reissue its opinion regarding Return Program Cartridges.

25. Lexmark and Impression stipulate that under this Court's Opinion and Order of March 27, 2014 (ECF No. 617), Impression's importation, remanufacture, sale, and offer for sale of Toner Cartridges first sold outside of the United States constitutes infringement of the Patents-in-Suit pursuant to 35 U.S.C. § 271.

26. This Stipulated Order is subject to any appeal that Impression or Lexmark may take based on the Court's Opinions and Orders of March 27, 2014 (ECF Nos. 615 and 617).

27. Notwithstanding the provisions contained in this stipulation, Mr. O'Connor's personal opinion is that Lexmark's Return Program constitutes an invalid and unenforceable contract. Lexmark disagrees. Despite Mr. O'Connor's personal opinion, Impression and Lexmark have agreed to entry of this stipulation in order to promote judicial economy and to focus the issues on appeal. Lexmark and Impression expressly reserve all of their applicable rights (including all claims and defenses) on remand, if any.

28. Subject to and if appropriate in view of the qualifications of paragraph 24 *supra*, Lexmark and

Impression respectfully request entry of the Stipulated Permanent Injunction attached as Exhibit N, and the Stipulated Final Judgment, attached as Exhibit O.

HAVING BEEN SEEN AND AGREED TO ON MAY 29th, 2014, by:

/s/_____
P. Douglas Barr
(Ohio Bar No. 20868)
Steven B. Loy
Anthony J. Phelps
STOLL KEENON OGDEN PLLC
300 West Vine Street,
Suite 2100
Lexington, KY 40507
Telephone: (859) 231-3000
Facsimile: (859) 253-1093

/s/_____
Edward F. O'Connor
ADMITTED PRO HAC VICE
THE ECLIPSE GROUP LLP
2020 Main Street, Suite 600
Irvine, California 92614
Phone: (619) 239-4340
Fax: (619) 239-0116
Email: efo@eclipsegrp.com

William J. Hunter, Jr.
STOLL KEENON OGDEN PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
Telephone: (502) 333-6000
Facsimile: (502) 333-6099

Crystal L. Maluchnik
(0077875)
George H. Carr (0069372)
JANIK L.L.P.
3200 South Hill Blvd.,
Suite 300
Cleveland, Ohio 44147
440.838.7600
Fax: 440.838.7601
crystal.maluchnik@janiklaw.com
george.carr@janiklaw.com

Timothy C. Meece
V. Bryan Medlock
Jason S. Shull
Audra Eidem Heinze
BANNER & WITCOFF LTD.
10 South Wacker Drive,

Suite 3000
Chicago, Illinois 60606
Telephone: (312) 463-5000

Attorneys for Plaintiff,
Lexmark International, Inc.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
CASE NO. 1:10-cv-00564-MRB

LEXMARK INTERNATIONAL, INC.
Plaintiff
v.
INK TECHNOLOGIES PRINTER SUPPLIES, LLC
et al
Defendants

STIPULATED PERMANENT INJUNCTION

This matter is before the Court on the stipulated motion of Plaintiff Lexmark International, Inc. ("Lexmark") and Defendant Impression Products, Inc. ("Impression") for entry of this Stipulated Permanent Injunction.

IT IS HEREBY FOUND, ORDERED, ADJUDGED WITH CONSENT OF THE PARTIES that:

1. Impression, is or has been, among other things, selling remanufactured and compatible toner cartridges in the United States and in foreign countries for use in Lexmark laser printers, including E120, E220, E230, E232, E234, E238, E240, E250, E260, E320, E322, E321, E323, E330, E332, E340, E342, E350, E352, E360, E450, E460, E460, T520, T522, X520, X522, T610, T612, T614, T616, T620, T622, X620, T630, T632, T634, T640, T642, T644, T650, T652, T654, T656, X650, X651, X652, X653, X654, X655, and X656 series printers, and the equivalent monochrome laser printers sold under private label, including the Dell 1700, Dell 1700N, Dell 1710,

Dell 1720, Dell 2230, Dell 2330, Dell 2350, Dell 3330, Dell 3333, Dell 3335, Dell 5200, Dell 5210, Dell 5300, Dell 5310, Dell 5230, Dell 5350, Dell 5530, Dell 5535, Dell E220, IBM 1116, IBM 1312, IBM 1412, IBM 1512, IBM 1512N, IBM InfoPrint 1120, IBM InfoPrint 1125, IBM Infoprint 1130, IBM Infoprint 1140, IBM InfoPrint 1332, IBM Infoprint 1352, IBM Infoprint 1372, IBM InfoPrint 1532, IBM Infoprint 1552, IBM Infoprint 1572, IBM Infoprint 1832, IBM Infoprint 1850, IBM Infoprint 1852, IBM Infoprint 1860, IBM Infoprint 1870, IBM Infoprint 1872, IBM Infoprint 1880, IBM Infoprint 1892, InfoPrint 1601, InfoPrint 1602, InfoPrint 1612, InfoPrint 1622, Infoprint 1822, IBM Infoprint 1823, IBM Infoprint 1930, IBM Infoprint 1940, Lenovo LI3900, LG 3510, LG 3350, LG 3850, LG 4010, Nashuatec P6220, Nashuatec P6225, Nashuatec P6230, Nashuatec 6240, Okidata MB780, Okidata MB790, Okidata 5500, Okidata 7180, Okidata 7190, Ricoh Afficio SP 4400, Ricoh Afficio SP 4410, Ricoh Afficio SP 4420, Sindoricoh 5000, Sindoricoh 5005, Sindoricoh 5050, Sindoricoh 4450, Sindoricoh 4550, Sindoricoh 4555, Sindoricoh 5450, Sindoricoh 5550, Source Technologies 9116, Source Technologies 9130, Source Technologies 9140, Source Technologies 9325, Source Technologies 9335, Source Technologies 9340, Source Technologies 9530n, Source Technologies 9550, Source Technologies 9552, Source Technologies 9630, Source Technologies 9650, Source Technologies 9620, Source Technologies 9622, Source Technologies ST 9120, Source Technologies 9125, Toshiba e-Studio 20P, Toshiba e-Studio 25P, Toshiba e-Studio 30P, Toshiba e-Studio 40P, Toshiba e-Studio 400P, Toshiba e-Studio430, Toshiba e-Studio 530, Toshiba e-Studio 450P, Toshiba e-Studio 500P, Toshiba e-

Studio 500P, Unisys 134, Unisys 136, Unisys UDS 130, Unisys UDS 132, Unisys UDS 640n, Unisys UDS 650n, Unisys UDS 140, Unisys UDS 142, Unisys UDS 540n, Unisys UDS 544n, Unisys UDS 630, Unisys UDS 635dn series printers (the "Accused Cartridges").

2. Lexmark owns and has standing to sue for infringement of United States Patent Nos. 5,337,032; 5,634,169; 5,758,231; 5,758,233; 5,768,661; 5,802,432; 5,875,378; 5,995,772; 6,009,291; 6,078,771; 6,397,015; 6,459,876; 6,487,383; 6,496,662; 6,678,489; 6,816,692; 6,871,031; 6,879,792; 7,139,510; 7,233,760; and 7,305,204 (the "Lexmark Patents");

3. The Lexmark Patents are valid and enforceable against Impression.

4. The following table identifies the patent claims of the Lexmark Patents that are satisfied literally by the Accused Cartridges:

Patents-in-Suit	Accused Cartridges*						
	E320	E23X/E24X/ E33X/E34X	E360/ E460/E460	E25X/ E35X/E45X	T92X/T61X/ T62X/T63X/ T64X/T65X/ X651/X652/ X654/X656	E320/ E322	E220 and E321/E323
5,337,832					1,5,6		
5,634,169			32,36,42		1-3,32-34, 36, 42	32,36,42	32,36,42
5,758,231		1-16	1-16	1-16		1-16	1-16
5,758,233					1-4		
5,768,661					1,2,3,6		
5,802,432					1-3, 7-9		
5,875,378					1-3,12-14,24		
5,995,772			14,15,22, 32-34		1-3,5,7-9, 12,14-18,20,21	14,15,22, 32-34	14,15,22, 32-34
6,009,291	1-2	1-2	1-2	1-2	1-2		
6,078,771	1,5,6,10, 12,13,15	1,5,6,10, 12,13,15	1,5,6,10, 12,13,15	1,5,6,10, 12,13,15	1,2,5,6,10, 12,13,15		
6,397,815			1,2,4, 9,17,19		1-4,7-12, 14-19,22-24	1,2,4, 9,17,19	1,2,4, 9,17,19
6,459,876					1-28		
6,487,383	1,2,6, 10,15,19	1,2,6, 10,15,19	1,2,6, 10,15,19	1,2,6, 10,15,19	1,2,6,10, 11,15,19	19	19
6,496,662		1,3,5,7		1,3,5,7			
6,678,489		5, 6	5, 6	5, 6			
6,816,692	1-13	1-13	1-13	1-13			
6,871,831		1-6,8-12	1-6,8-12	1-6,8-12			
6,879,792		1-11	1-11	1-11			
7,138,510		1-10	1-10	1-10			
7,233,760	1-10, 11,12,14	1-10, 11,12,14	1-10, 11,12,14	1-10, 11,12,14			
7,305,204		1-20	1-20	1-8,10-13			

* The private label models corresponding to the Accused Cartridges identified in Table 1 are likewise covered by the respective Patents-in-Suit.

5. Except as permitted in Paragraph 6, this Court permanently enjoins Impression, as well as

those persons or companies in active concert or participation with Impression who receive actual notice of the order by personal service or otherwise, from making, using, selling, offering for sale or importing into the United States Accused Cartridges that infringe any of the above-identified patent claims or are not colorably different from the Accused Cartridges.

6. Nothing herein limits or shall be construed to limit in any way Impression's activities with respect to toner cartridges in which Lexmark's patent rights have been exhausted or to redesigned toner cartridges that do not infringe Lexmark's patents. Further, nothing herein limits or shall be construed to limit in any way Impression's activities with respect to any Lexmark Patents that have expired, lapsed, are no longer enforceable, or have found to be invalid by a court of competent jurisdiction. Finally, nothing herein limits or shall be construed to limit in any way Impression's activities outside the United States.

7. This Court retains jurisdiction over Lexmark and Impression to the extent necessary to enforce the terms of this Stipulated Permanent Injunction.

8. This Stipulated Permanent Injunction shall be binding upon and shall inure to the benefit of Lexmark and Impression, as well as each of their respective subsidiaries, corporate parents, affiliates, and/or successors and assigns.

Date: June 23, 2014

/s/ Michael R. Barrett
United States District Judge

HAVING BEEN SEEN AND AGREED TO ON MAY 29th, 2014, by:

/s/_____
P. Douglas Barr
(Ohio Bar No. 20868)
Steven B. Loy
Anthony J. Phelps
STOLL KEENON OGDEN PLLC
300 West Vine Street,
Suite 2100
Lexington, KY 40507
Telephone: (859) 231-3000
Facsimile: (859) 253-1093

/s/_____
Edward F. O'Connor
ADMITTED PRO HAC VICE
THE ECLIPSE GROUP LLP
2020 Main Street, Suite 600
Irvine, California 92614
Phone: (619) 239-4340
Fax: (619) 239-0116
Email: efo@eclipsegrp.com

William J. Hunter, Jr.
STOLL KEENON OGDEN PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
Telephone: (502) 333-6000
Facsimile: (502) 333-6099

Crystal L. Maluchnik
(0077875)
George H. Carr (0069372)
JANIK L.L.P.
3200 South Hill Blvd.,
Suite 300
Cleveland, Ohio 44147
440.838.7600
Fax: 440.838.7601
crystal.maluchnik@janiklaw.com
george.carr@janiklaw.com

Timothy C. Meece
V. Bryan Medlock
Jason S. Shull
Audra Eidem Heinze
BANNER & WITCOFF LTD.
10 South Wacker Drive,
Suite 3000
Chicago, Illinois 60606
Telephone: (312) 463-5000

Attorneys for Plaintiff,
Lexmark International, Inc.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
CINCINNATI DIVISION

LEXMARK INTERNATIONAL, INC.
Plaintiff,
v.
INK TECHNOLOGIES PRINTER SUPPLIES, LLC, ET AL.
Defendants.

Civil Action No.
1:10-CV-564-MRB

STIPULATED FINAL JUDGMENT

This matter is before the Court on Plaintiff Lexmark International, Inc.'s ("Lexmark's") and Defendant Impression Products, Inc.'s ("Impression's") Joint Motion For Entry Of Stipulated Order Regarding Supplementation Of Record, Limited Reconsideration To The Extent Necessary To Preserve Appellate Rights, For Non-Infringement With Respect To Toner Cartridges First Sold Inside The United States, For Infringement For Toner Cartridges First Sold Outside The United States, And For Entry Of Final Judgment ("Joint Motion"), and the Court having considered the Joint Motion and being otherwise sufficiently advised,

IT IS HEREBY FOUND, ORDERED, ADJUDGED that:

1. Judgment is entered in favor of Lexmark and against Impression on Count I of Lexmark's Second Amended Complaint with respect to accused cartridges first sold outside of the United States.

2. Judgment is entered in favor of Impression and against Lexmark on Count I of Lexmark's Second Amended Complaint with respect to accused cartridges that are subject to the Return Program condition *(i.e.,* Return Program Cartridges) and first sold in the United States.

3. This Stipulated Entry of Final Judgment resolves all questions of liability as between Lexmark and Impression and is final, ~~except for an accounting with the meaning of 28 U.S.C. § 1292(e)(2).~~

4. Any claims Lexmark may have against unidentified John Doe Defendants are hereby dismissed without prejudice.

5. Subject to paragraph 3 *supra, all* claims against each of the named Defendants in this action are now resolved.

6. This Stipulated Entry of Final Judgment is subject to any appeal that Impression or Lexmark may take based on the Court's Opinions and Orders of March 27, 2014 (ECF Nos. 615, 617), regarding whether Lexmark's United States patent rights are exhausted in (1) accused cartridges first sold outside of the United States and (2) accused cartridges that are subject to the Return Program condition *(i.e.,* Return Program cartridges) and first sold inside the United States.

7. Lexmark and Impression make this Stipulated Entry of Final Judgment to promote judicial economy and expressly reserve all of their applicable rights (including all claims and defenses) on remand, if any.

Date: June 23, 2014

/s/ Michael R. Barrett
United States District Judge

HAVING BEEN SEEN AND AGREED TO ON MAY 29th, 2014, by:

/s/_____
P. Douglas Barr
(Ohio Bar No. 20868)
Steven B. Loy
Anthony J. Phelps
STOLL KEENON OGDEN PLLC
300 West Vine Street,
Suite 2100
Lexington, KY 40507
Telephone: (859) 231-3000
Facsimile: (859) 253-1093

/s/_____
Edward F. O'Connor
ADMITTED PRO HAC VICE
THE ECLIPSE GROUP LLP
2020 Main Street, Suite 600
Irvine, California 92614
Phone: (619) 239-4340
Fax: (619) 239-0116
Email: efo@eclipsegrp.com

William J. Hunter, Jr.
STOLL KEENON OGDEN PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
Telephone: (502) 333-6000
Facsimile: (502) 333-6099

Crystal L. Maluchnik
(0077875)
George H. Carr (0069372)
JANIK L.L.P.
3200 South Hill Blvd.,
Suite 300
Cleveland, Ohio 44147
440.838.7600
Fax: 440.838.7601
crystal.maluchnik@janiklaw.com
george.carr@janiklaw.com

Timothy C. Meece
V. Bryan Medlock
Jason S. Shull
Audra Eidem Heinze
BANNER & WITCOFF LTD.
10 South Wacker Drive,

Suite 3000
Chicago, Illinois 60606
Telephone: (312) 463-5000

Attorneys for Plaintiff,
Lexmark International, Inc.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
CINCINNATI DIVISION

LEXMARK INTERNATIONAL, INC.
Plaintiff,

v.

INK TECHNOLOGIES PRINTER SUPPLIES, LLC, ET AL.

Defendants.

Civil Action No.
1:10-CV-564-MRB

ORDER ON JOINT MOTION FILED UNDER SEAL ON MAY 29, 2014

This matter is before the Court on the Joint Motion, filed under seal on May 29, 2014, by Plaintiff Lexmark International, Inc. ("Lexmark") and Defendant Impression Products, Inc. ("Impression Products"), for Entry of Stipulated Order Regarding Supplementation of Record, Limited Reconsideration to the Extent Necessary to Preserve Appellate Rights, for Non-Infringement with respect to Toner Cartridges First Sold Outside the United States, and for Entry of Final Judgment ("Joint Motion"). (Doc. 661).

IT IS HEREBY FOUND, ORDERED, ADJUDGED that:

1. The Joint Motion is granted.

2. In accordance with the Joint Motion, the district court record is hereby supplemented with the stipulations and agreements contained in the Joint

Motion as well as the documents attached thereto (collectively, "the Supplemented Record").

3. Lexmark's and Impression Products' joint motion for reconsideration—of the Court's order (Doc. 615) regarding Impression Products' Second Motion to Dismiss regarding the invalidity of Lexmark's Return Program under patent law—is granted based on the Supplemented Record.

4. As stated in the Court's order, the "issue presented" in Impression Products' Second Motion to Dismiss was "whether the Return Program is invalid as a matter of law. Having considered the relevant caselaw and briefings of the parties, the Court finds that Lexmark's patent infringement [based on the Return Program] are barred as a matter of law by the doctrine of patent exhaustion and must be dismissed." (Doc. 615, p. 4).

5. Based on the Supplemented Record, the following portion of the Court' order (Doc. 615, p. 11) is vacated.

> Lexmark does not allege that the authority of the sellers of the Return Program cartridges were restricted or conditioned in any way. In other words, the facts alleged by Lexmark do not suggest that the sellers had anything other than full authority to sell the Return Cartridges that practiced Lexmark's patents.

6. After reconsidering Impression Products' Second Motion to Dismiss (Doc. 615) in view of the Supplemented Record, the Court again finds that Lexmark's patent infringement claims based on its Return Program are barred as a matter of law by the doctrine of patent exhaustion and must be dismissed

based on the same analysis of patent law set forth in the Court's order of March 27, 2014. (Doc. 615)

Date: June 23, 2014

s/Michael R. Barrett
MICHAEL R. BARRETT, Judge
United States District Court

RECORD AND BRIEFS

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In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR PETITIONER

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
JOHN T. LEWIS
KARIANNE M. JONES
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

Counsel for Petitioner

QUESTIONS PRESENTED

The "patent exhaustion doctrine"—also known as the "first sale doctrine"—holds that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008). The questions presented are:

1. Whether a sale that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

RULE 29.6 STATEMENT

Petitioner Impression Products, Inc. has no parent corporation. No publicly held company owns 10% or more of its stock.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-135a) is reported at 816 F.3d 721. The opinion of the district court addressing the "conditional sale" doctrine (Pet. App. 140a-155a) is unreported, but is available at 2014 WL 1276133. The opinion of the district court addressing international exhaustion (Pet. App. 156a-169a) is reported at 9 F. Supp. 3d 830.

JURISDICTION

The judgment of the court of appeals was entered on February 12, 2016. The petition for a writ of certiorari was filed on March 21, 2016, and granted on December 2, 2016. This Court's jurisdiction rests on 28 U.S.C. § 1254(1).

STATEMENT

A. Legal background.

A patent provides important, but limited, legal protection to inventions for the specific purpose of promoting the general public welfare. See *Graham* v. *John Deere Co.*, 383 U.S. 1, 5-6 (1966). The Constitution's "Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'" *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

Thus, a patentee may preclude another from making, using, or selling an article that embodies its patented invention for the term specified in the Patent Act. 35 U.S.C. § 271(a). A patent holder can, in that sense, be said to possess a "monopoly" over the right to practice its patents.

That monopoly is limited by, among other things, the doctrine of patent exhaustion, which holds that the "authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article." *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013). When title to the article "passes to the hands of the purchaser," the article "is no longer within the limits of the monopoly." *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539 (1852); see also *ibid.* (the article "passes outside" of the patent monopoly, and it "is no longer under the protection of the act of Congress").

That is because "the initial authorized sale of a patented item terminates all patent rights to that item" (*Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008)), and "confers on the purchaser, or any subsequent owner, 'the right to use [or] sell' the thing as he sees fit" (*Bowman*, 133 S. Ct. at 1766). Patent exhaustion thus enables secondary resale and repair markets for patented goods. See *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961).

The Federal Circuit has created two substantial exceptions to patent exhaustion. In *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992), the court held that a patentee may transfer title to the patented article and impose a post-sale restriction on the article's resale or use that, notwithstanding the exhaustion doctrine, may be enforced by the patent laws. And in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001), the court held that a patentee's U.S. patent rights are not exhausted when the article is sold outside the United States in a sale authorized by the U.S. patentee.

B. Factual background.

This case concerns toner cartridges for laser printers—the component containing the ink used by the printer, which is replaced by a new cartridge when the ink is used up—and Lexmark's continued efforts to "dominate[] the market for cartridges compatible with its printers." *Lexmark Int'l, Inc.* v. *Static Control Components, Inc.*, 134 S. Ct. 1377, 1383 (2014).

Because a printer manufacturer often patents certain aspects of the toner cartridges used in its printers, the manufacturer may maintain a monopoly over the sale of new toner cartridges. Lexmark, a printer manufacturer, thus sells its new cartridges at a substantial premium, often charging several hundred dollars for a single cartridge. After a cartridge is spent, however, "remanufacturers" may "acquire used Lexmark toner cartridges, refurbish them, and sell them in competition with new and refurbished cartridges sold by Lexmark." *Ibid.*

Impression Products, a small, family-owned business in Charleston, West Virginia, is one such remanufacturer. Pet. App. 10a. It purchases spent toner cartridges that were initially sold by Lexmark within the United States and in other countries. *Id.* at 11a-13a. Impression Products then cleans, refills, and resells them to consumers. *Ibid.* It sells its high quality cartridges at a substantial discount to Lexmark's new products, saving its customers significant sums.[1]

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[1] In repairing the cartridges, Impression Products replaces a chip that counts down the number of pages left in the cartridge. Pet. App. 11a. Lexmark does not argue "that the chip replace-

Lexmark, however, "would prefer that its customers return their empty cartridges to it for refurbishment and resale, rather than sell those cartridges to a remanufacturer." *Static Control Components*, 134 S. Ct. at 1383. It therefore offers its customers the option to purchase a "'Return Program Cartridge' at a discount of roughly 20 percent, subject to a single-use/no-resale restriction." Pet. App. 10a. These cartridges contain a restriction that "the buyer may not reuse the cartridge after the toner runs out and may not transfer it to anyone but Lexmark once it is used." *Ibid.*

Lexmark maintains that its transfer of the Return Program Cartridges to its customers constitutes a sale of property; it specifically disclaims any contention that the legal arrangement qualifies as a lease. Pet. App. 11a n.1. According to Lexmark, a customer who purchases a "Return Program Cartridge" "is not absolutely required to return the cartridge to Lexmark." *Ibid.*

C. Proceedings below.

In 2010, Lexmark sued several remanufacturers, including Impression Products, for direct and contributory patent infringement. Pet. App. 12a-13a. Impression Products is the sole remaining defendant. *Id.* at 13a.

1. Impression Products moved to dismiss Lexmark's single claim of infringement in two separate motions—one directed to Return Program cartridges first sold in the United States, and the other directed to cartridges first sold abroad. Pet. App. 14a. Impression Products contended that Lexmark's pa-

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ment and ink replenishment result in new articles, which would be outside the scope of the exhaustion doctrine." *Id.* at 12a n.2.

tent rights in the cartridges had been exhausted, and that its repair and resale of the cartridges was therefore lawful. *Ibid.*

The district court granted Impression Products' motion to dismiss as to the cartridges first sold in the United States. Pet. App. 140a-155a. The court held that the Federal Circuit's ruling in *Mallinckrodt* had been overruled by this Court's decision in *Quanta*. *Id.* at 153a-154a. In *Quanta*, the district court explained, a downstream purchaser "had notice of the conditions of the sale [of patented articles], yet the Supreme Court still held that the patent rights of [the patentee] had been exhausted after the first unrestricted authorized sale by its licensee." *Id.* at 153a. Thus, "[u]nder *Quanta*, * * * post-sale use restrictions do not prevent patent rights from being exhausted [when] the initial sales were authorized and unrestricted." *Id.* at 153a-154a.

Holding otherwise, the district court stated, would "create significant uncertainty for downstream purchasers and end users who may continue to [be] liable for infringement even after an authorized sale to the consumer has occurred." *Id.* at 154a. The court concluded "that the fully authorized sales of the Return Program cartridges to consumers for use in the ordinary pursuits in life took the cartridges outside the scope of the patent monopoly despite the notices contained on those cartridges." *Ibid.*

With respect to the cartridges first sold abroad, the district court denied Impression Products' motion to dismiss. Pet. App. 169a. The court described the "core dispute" on this issue as whether this Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), "overturns" *Jazz Photo*. Pet. App. 162a. It concluded that this Court "did not intend to

implicitly overrule *Jazz Photo* and that *Jazz Photo* remains controlling precedent on patent exhaustion abroad." *Id.* at 169a.

The district court entered a stipulated final judgment in favor of Impression Products as to the Return Program cartridges and in favor of Lexmark as to the cartridges initially sold abroad. Pet. App. 17a-18a. Both parties appealed. *Id.* at 18a.

2. Prior to issuing a panel decision, the Federal Circuit *sua sponte* issued an order directing en banc hearing. Pet. App. 18a-19a. The en banc court reversed on the Return Program issue, reaffirming the validity of its *Mallinckrodt* decision; it affirmed on the foreign sales issue, reaffirming its *Jazz Photo* decision.

The Federal Circuit first observed that the parties had entered into agreements "narrow[ing]" the "focus" of the dispute (Pet. App. 13a):

- The court observed that only a "single count of infringement" remained against Impression Products, which does "not dispute the validity or enforceability of the patents." *Ibid.*
- It also was undisputed that all relevant parties had adequate notice of the conditions Lexmark putatively placed on the Return Program cartridges. *Id.* at 14a.
- Lexmark did not assert that Impression Products' refurbishment of the cartridges—which includes "the chip replacement and ink replenishment"—"result[s] in new articles, which would be outside the scope of the exhaustion doctrine." *Id.* at 12a n.2.

The court concluded that this case therefore turns on two controlling legal questions. First, whether a patentee may impose post-sale restrictions on the use or resale of a patented article, enforceable under the Patent Act, even though the patentee or its licensee transfers title to the patented article in an authorized sale. Pet. App. 25a. And, second, whether a U.S. patentee's authorized sale of a patented good abroad can ever exhaust U.S. patent rights. *Ibid.*

With respect to patent-based post-sale restrictions, the majority concluded that a patentee may enforce, under the patent law, a restriction placed on the good at the time of sale: "A sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the 'authority' to engage in the use or resale that the restriction precludes." Pet. App. 26a. The majority held that *Quanta* did not overrule *Mallinckrodt* (*id.* at 30a-37a), and that *Mallinckrodt* is compatible with this Court's precedents addressing the exhaustion doctrine. *Id.* at 35a-62a.

With respect to international exhaustion, the majority categorically held that patent exhaustion "cannot rest on a foreign first sale." Pet. App. 67a. It dismissed *Kirtsaeng* as limited to the "statutory question" whether the Copyright Act's first sale doctrine applies abroad and concluded that the decision's reasoning therefore "cannot be transposed to the patent-law setting." *Id.* at 73a. The majority concluded, in accord with *Jazz Photo*, that a sale outside the United States of a patented item cannot exhaust U.S. patent rights.

3. Judge Dyk, joined by Judge Hughes, dissented. Pet. App. 105a-135a. With respect to the patent-based post-sale restrictions, the dissent stated that "*Mallinckrodt* was wrong when decided," because this Court has "repeatedly held that the authorized sale of a patented article exhaust[s] all of the patentee's patent rights in that article." *Id.* at 105a, 109a. The dissent catalogued in detail the decisions of this Court conflicting with *Mallinckrodt*. *Id.* at 107a-109a.

"[I]n any event," the dissent added, *Mallinckrodt* "cannot be reconciled with the Supreme Court's recent decision in *Quanta*." *Id.* at 105a. In the dissent's view, the court of appeals "exceed[ed] [its] role as a subordinate court by declining to follow the explicit domestic exhaustion rule announced by the Supreme Court." *Id.* at 105a-106a. See also *id.* at 118a ("The majority's justifications for refusing to follow Supreme Court authority establishing the exhaustion rule misconceive our role as a subordinate court.").

Turning to international exhaustion, the dissent concluded that the majority's categorical holding—and *Jazz Photo*—are wrong. Pet. App. 125a-135a. The dissent determined that a foreign sale authorized by a U.S. patentee would not, "in all circumstances," exhaust U.S. patent rights. It adopted the position advanced by the United States—holding "that the foreign sale should result in exhaustion if the authorized seller does not explicitly reserve its United States patent rights." *Id.* at 125a.

SUMMARY OF ARGUMENT

Patent exhaustion is a bedrock principle of patent law: "Under the doctrine, 'the initial authorized sale of a patented item terminates all patent rights

to that item'" (*Bowman*, 133 S. Ct. at 1766 (quoting *Quanta*, 553 U.S. at 625)), and "confers on the purchaser, or any subsequent owner, 'the right to use [or] sell' the thing as he sees fit" (*ibid.* (quoting *United States* v. *Univis Lens Co.*, 316 U.S. 241, 249-250)). Exhaustion thereby "prevents the patent holder from invoking patent law to control postsale use of the article." *Quanta*, 553 U.S. at 638.

Patent exhaustion is vital to competition. Without it, patentees could opt to eliminate resale and repair markets for used, legally-purchased, patented goods. See *Aro Mfg.*, 365 U.S. at 346.

I. A patentee may not avoid patent exhaustion by selling its goods with putative post-sale restrictions attached. The Federal Circuit's contrary conclusion—which would permit circumvention of patent exhaustion at will—is incorrect.

To begin with, patent exhaustion serves as a mandatory "limit" on the scope of the patentee's rights. *Bowman*, 133 S. Ct. at 1766; *Quanta*, 553 U.S. at 621. It operates on a simple principle: the patentee is entitled to set the value of his or her reward for a particular patented article at the time of the first authorized sale, but after receiving that reward, the patent monopoly ceases as to the article sold.

An optional exhaustion regime would gut the fundamental purpose and operation of the doctrine. This Court has therefore rejected legal rules that would permit patentees to effect an "end-run around exhaustion." *Quanta*, 553 U.S. at 630.

Indeed, the Court has on numerous occasions held unenforceable patent-based post-sale restraints indistinguishable from Lexmark's resale ban. The Court's holdings in *Univis* and *Quanta* are each in-

dependently dispositive of that question. And those decisions reflect a long line of consistent determinations by this Court. To be sure, the Court briefly changed course in a single decision—*Henry* v. *A.B. Dick Co.*—which endorsed post-sale restrictions. But the Court expressly overruled *A.B. Dick* a mere five years later, confirming that post-sale restrictions may not be enforced through the patent laws.

To justify its contrary view, the Federal Circuit pointed to a purported distinction between sales by patentees and those by licensees. In fact, patent exhaustion applies identically, without regard to whether a good is sold by a patentee or licensee. If the patentee has authorized the sale, then the first-sale exhaustion doctrine applies.

That result is fundamental to enable competitive resale and repair markets for patented goods. Under the legal rule adopted below, any patentee could choose to foreclose completely all resale and repair markets for its patented products.

II. A patentee may not circumvent patent exhaustion by selling its goods outside the United States. The Federal Circuit's conclusion that a foreign sale can never exhaust U.S. patent rights is incorrect.

Kirtsaeng held that sales abroad exhaust U.S. copyrights. In reaching that result, the Court considered the contours of the common law, as identified by Lord Coke. It concluded that "[t]he common-law doctrine makes no geographical distinctions." *Id.* at 1363. That statement addressed property law and the exhaustion doctrine generally—not copyright exhaustion specifically. Because patent exhaustion is solely a common-law doctrine, *Kirtsaeng*'s under-

standing of the common law necessarily governs the result here.

The Court's holding in *Quanta* confirms that there is no foreign-sale exception to patent exhaustion. That result is likewise consistent with the principle that a patentee is entitled to a single reward for the sale of its patented goods.

The Federal Circuit's contrary conclusion injures U.S. consumers, industry, and workers alike. It authorizes U.S. patentees to engage in price discrimination, charging U.S. consumers more than foreign consumers for the same goods. It injects costly uncertainty into the complex supply chain, creating undue costs for industry. And, finally, the Federal Circuit's approach creates a perverse incentive for patentees to manufacture their goods outside the United States.

ARGUMENT

I. The Patent Exhaustion Doctrine Bars Use Of The Patent Law To Enforce Post-Sale Restrictions.

Patent exhaustion holds that the initial authorized sale of a patented article exhausts all patent rights to that item. A patentee may not, accordingly, assert a *patent-based* post-sale restriction.[2]

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[2] Like all other market participants, patentees may use non-patent mechanisms to restrict resale or reuse of goods. They may, for example, require contracts that regulate the disposition of goods. *Quanta*, 553 U.S. at 637 n.7. Or patentees may lease, rather than sell, a good. *United States* v. *United Shoe Mach. Co. of N.J.*, 247 U.S. 32, 58 (1918) ("Leases are not of this character; they do not convey the title.").

The Federal Circuit's contrary rule would dramatically expand the scope of the patent monopoly, enabling any patentee—such as manufacturers of automobiles, cell phones, and farm equipment—to eliminate all competitors in long-standing, well-developed markets, such as those for resale and repair of these and many other articles. That holding is manifestly wrong for four related reasons.

First, it is incompatible with fundamental attributes of patent exhaustion doctrine long recognized by this Court—that exhaustion is mandatory, and that a patentee is entitled to only a single reward for the sale of a patented good. *Second*, for nearly two centuries, this Court has squarely and consistently rejected attempts to enforce patent-based post-sale restrictions. *Third*, Section 271(a) does not authorize a patentee to impose patent-based post-sale restrictions. *Fourth*, the patent exhaustion doctrine does not treat patentees and licensees inconsistently: it applies identically whether the authorized first sale was made by a licensee or a patentee. And *fifth*, upholding patent-based post-sale restrictions would empower patentees to eliminate all competition in well-established secondary markets, hurting consumers and business alike.

A. Patent-based post-sale restrictions are fundamentally incompatible with the principles underlying exhaustion.

"The doctrine of patent exhaustion limits a patentee's right to control what others can do with an article embodying or containing an invention." *Bowman*, 133 S. Ct. at 1766. "Under the doctrine, 'the initial authorized sale of a patented item terminates all patent rights to that item.'" *Ibid.* (quoting *Quanta*, 553 U.S. at 625).

Patent exhaustion is "a common-law doctrine with an impeccable historical pedigree"; it traces directly to "the common law's refusal to permit restraints on the alienation of chattels." *Kirtsaeng*, 133 S. Ct. at 1363. Indeed, "restraints upon" the "alienation" of property "have been hateful to the law from Lord Coke's day to ours"; they are "obnoxious to the public interest." *Straus* v. *Victor Talking Mach. Co.*, 243 U.S. 490, 500-501 (1917). Absent patent exhaustion, "[t]he inconvenience and annoyance to the public * * * are too obvious to require illustration." *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 667 (1895).

The Federal Circuit's rule departs from exhaustion's animating principles in two fundamental ways: it would improperly transform patent exhaustion from a mandatory doctrine into an optional limitation avoidable at will by the patentee. It also would breach the "single-reward" principle, enabling a patentee to receive multiple rewards for a single patented good.

First, this Court has repeatedly characterized patent exhaustion as a fixed limit on patent rights.

"For over 150 years this Court has applied the doctrine of patent exhaustion to *limit* the patent rights that survive the initial authorized sale of a patented item." *Quanta*, 553 U.S. at 621 (emphasis added). See also *Bowman*, 133 S. Ct. at 1766 (patent exhaustion forms a "limit[]" to the "patentee's right[s]" that would otherwise exist).

The Court has consistently refused to configure the doctrine in a manner that would permit patentees to circumvent patent exhaustion. In *Quanta*, the Court declined to "[e]liminat[e] exhaustion for meth-

od patents," as doing so "would seriously undermine the exhaustion doctrine" because "[p]atentees seeking to avoid patent exhaustion could simply draft their patent claims to describe a method rather than an apparatus." *Quanta*, 553 U.S. at 629. That approach would have enabled patentees to "shield practically any patented item from exhaustion." *Id.* at 630. "[E]nd-run[s] around exhaustion" are not allowed. *Ibid.*

The Federal Circuit's holding, by contrast, rests expressly on the view that patent exhaustion is *optional.* In its view, "a patentee-made or patentee-authorized sale of a patent article" is merely a "*presumptive[]* grant[]" of "'authority' to the purchaser to use it and resell it." Pet. App. 40a. That would enable any patentee, in the course of any sale, to create an "end-run around exhaustion."

Such a result is wholly inconsistent with this Court's view that patent exhaustion admits of no exception: "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and *prevents the patent holder from invoking patent law to control postsale use of the article.*" *Quanta*, 553 U.S. at 638 (emphasis added).

Second, patent exhaustion implements the single-reward principle, and an avoidable exhaustion rule is starkly inconsistent with that principle.

A patent is a "limited monopoly," which the patentee "surrender[s]" "in whole by the sale of his patent or in part by the sale of an arti[c]le embodying the invention." *Univis*, 316 U.S. at 250.

More than 150 years ago, this Court explained that the patentee is entitled to a *single* reward at the time of the sale. The patentee is "entitled to but one

royalty for a patented machine," and once "the consideration has been paid to him for the right, he has then to that extent parted with his monopoly." *Bloomer* v. *Millinger*, 68 U.S. 340, 350 (1863). Thus, "the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it," exhausts the patentee's rights—it "emancipates such article from any further subjection to the patent." *Keeler*, 157 U.S. at 666. After the patentee has received his or her "tribute" via the completed transaction, patent rights are exhausted. *Id.* at 667.

Patent-based post-sale restrictions would improperly extend the patent beyond this "limited monopoly." They would enable a patentee to demand *multiple* rewards for the same article—and to do so after the title to the article has passed to the purchaser. For example, the patentee could require payment of a royalty in connection with every resale of the patented article.

Post-sale restrictions are therefore irreconcilable with these two foundational principles underlying the patent exhaustion doctrine.

B. The Court has consistently held that post-sale restrictions are not enforceable via the Patent Act.

The dissenting judges below correctly concluded that there is "no colorable basis" for the Federal Circuit's "failure to follow the exhaustion rule for domestic sales as articulated by the [Supreme] Court in *Quanta* and numerous other cases." Pet. App. 124a-125a (Dyk, J., dissenting).

The Court's decisions in *Univis* and *Quanta* unequivocally establish that the initial authorized sale of

a patented good exhausts the patentee's monopoly, barring the enforcement under the Patent Act of any putative post-sale restriction specified by the patentee or its licensee. Moreover, *Univis* and *Quanta* reflect a nearly unbroken line of cases dating back to the mid-nineteenth century recognizing that an authorized sale terminates a patentee's rights. The lone exception—*Henry* v. *A.B. Dick*, 224 U.S. 1 (1912)—is, in fact, the exception that proves the rule: it was overruled by the Court a mere five years after the decision was issued.

1. Univis *and* Quanta *preclude patent-based post-sale restrictions.*

a. The *Univis* Court held that after a patentee sells a patented article, the patentee may not subsequently exercise patent-based control. Specifically, the Court rejected the patentee's attempts to impose restrictions that forbade the resale of some patented goods and fixed the resale price for others.

Univis owned patents relating to multifocal eyeglass lenses. 316 U.S. at 243. Univis's licensee, the Lens Company, manufactured lens blanks; the Lens Company sold the blanks to wholesalers and retailers, which finished the lens blanks to create multifocal lenses purchased by consumers. *Ibid.* The Lens Company paid Univis 50 cents for each pair of lens blanks it sold. *Ibid.*

Univis sought to control the downstream distribution of the lenses, restricting both the parties to whom lenses could be sold and fixing the resale price. To do so, Univis issued different classes of licenses to different categories of purchasers—wholesalers, finishing retailers, and prescription retailers. *Id.* at 244. Univis required the Lens Company to sell the lens

blanks only to companies that had entered into a license with Univis. *Ibid.*

Univis's licenses with the wholesalers and retailers imposed post-sale restrictions. For example, wholesalers could resell lenses only to Univis's "prescription licensees" and "only at prices fixed by" Univis. *Ibid.* Likewise, these post-sale restrictions required the finishing retailers and the prescription retailers to resell the lenses only to consumers, not to wholesalers or other retailers. *Id.* at 244-245. Additionally, the restrictions fixed the prices at which the retailers could resell the lenses. *Ibid.*

The government brought antitrust claims against Univis and the Lens Company, arguing that these resale provisions violated the Sherman Act. *Id.* at 243. The companies defended by arguing that their sale of the lens blanks was "excluded" from the ambit of the Sherman Act by their "patent monopoly." *Ibid.*

This Court unequivocally rejected that argument. "An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it." *Id.* at 249. Therefore, "upon familiar principles," the Court explained, "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Ibid.*

Such an authorized first sale of the lens blanks had occurred: the "purchase price paid by the finishing licensee to the Lens Company" "transfer[red] ownership of the blank." *Id.* at 249-250. That "sale" of the patented article "exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Id.* at 250.

The Court therefore held that the post-sale restrictions imposed by Univis, including the conditions "fixing resale prices," "derive[] no support from the patent." *Id.* at 251. Because the patentee had "received his reward for the use of his invention by the sale of the article," the "patent law affords no basis for restraining the use and enjoyment of the thing sold." *Ibid.*; see also *id.* at 252 (the "first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers").

Univis thus makes plain that a patentee may not enforce any patent-based post-sale restriction.

The court of appeals rested its contrary conclusion on its view that *Univis* excludes from enforceability under the Patent Act only a post-sale restriction that *independently* violates the antitrust laws. Pet. App. 54a. That misreads *Univis* and misunderstands the relationship between antitrust and patent law.

The *Univis* Court's holding with respect to exhaustion turned entirely on the legal rule that, following a first authorized sale, a patentee has "surrender[ed] his monopoly" and may not, therefore, exercise *any* patent-based restriction. 316 U.S. at 250. The Court never rested its patent exhaustion holding on a determination that the restrictions at issue violated the antitrust laws, nor did it hint that the antitrust status of the restrictions was relevant to its exhaustion analysis.

Nor would such analysis be proper. The "patent monopoly" is an exception to generally applicable antitrust laws, permitting a patentee "to control the price" of the *first* sale of patented articles. *Univis*,

316 U.S. at 251. It is only when the patentee "steps out of the scope of his patent rights and seeks to control and restrain those to whom he has sold his patented articles in their subsequent disposition of what is theirs, that he comes within the operation of the Anti-Trust Act." *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 485 (1926). See also, *e.g.*, *Walker Process Equip., Inc.* v. *Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965) ("A patent * * * is an exception to the general rule against monopolies."); *United States* v. *Line Materials Co.*, 333 U.S. 287, 300 (1948).

The application of patent exhaustion is thus a question *antecedent* to application of the antitrust laws. That is how the Court approached the issue in *Univis*. It first held that Univis's patent monopoly did not permit the restrictions at issue and therefore did not insulate them from the operation of the antitrust law. Only then did the Court conclude that those restrictions indeed violated the antitrust laws.

The Federal Circuit majority also dismissed *Univis*'s clear holding as dicta. It asserted that the conclusion that *Univis* bars post-sale patent-based restrictions relies on "language in *Univis*" "taken out of context." Pet. App. 54a.

But *Univis*'s reasoning is not *dicta*; it was essential to this Court's holding. Indeed, the *Quanta* Court explained that "*Univis* governs this case"—and there was no claim in *Quanta* that the post-sale restriction at issue violated the antitrust laws. 553 U.S. at 631. The dissent below therefore properly criticized the majority for "characteriz[ing] the statement of the exhaustion rule in the Supreme Court cases as mere

dictum," given that "the cases impose no such qualification on the rule announced." Pet. App. 118a.[3]

For these reasons, *Univis* squarely precludes patentees from using the patent laws to enforce post-sale restrictions.

b. This Court's decision in *Quanta* rests on the same conclusion as *Univis*.

The plaintiff, LG Electronics, owned patents relating to microprocessors and chipsets. 553 U.S. at 621-622. It licensed those patents to Intel, authorizing Intel to manufacture parts for sale. The License Agreement stipulated that third-party purchasers were not authorized to combine these parts "with items, components, or the like acquired ... from sources other than a party hereto." *Id.* at 623. Additionally, a Master Agreement required Intel to provide purchasers of Intel microprocessors and chipsets with notice that LG Electronics' license "does not extend, expressly or by implication, to any product that you make by combining an Intel product with any non-Intel product." *Id.* at 624.

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[3] The Federal Circuit majority also suggested that *Univis* considered solely a "vertical price-control restriction," not a resale bar. Pet. App. 54a. That is a distinction without a difference. If a patentee cannot control resale prices, it follows that a patentee cannot exercise the far greater control of barring resale entirely—which is what Lexmark purports to do here. (And, moreover, there is no principled distinction between a resale bar and a resale price restriction that fixes the price at an unreasonably high level.) In any event, the post-sale restrictions in *Univis included* a resale bar (*Univis*, 316 U.S. at 245-246), which was therefore addressed in the Court's conclusion that Univis could not "exercise *any* further control over the article sold." *Id.* at 252 (emphasis added).

Intel sold microprocessors and chipsets to Quanta Computer. *Ibid.* Intel informed Quanta of the post-sale restriction—"the notice required by the Master Agreement." *Ibid.* As the Federal Circuit put it, Intel's "sales were conditional"—and the court thus expressly relied on *Mallinckrodt*. *LG Elecs., Inc.* v. *Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006).

Quanta nonetheless "manufactured computers using Intel parts in combination with non-Intel memory and buses in ways that practice" LG Electronics' patents, in violation of the post-sale restriction. *Quanta*, 553 U.S. at 624. LG Electronics sued Quanta for patent infringement.

The Federal Circuit rejected Quanta's patent exhaustion defense on two grounds: it first concluded that patent exhaustion does not apply to method patents (*id.* at 625); second, it held that "an expressly conditional sale or license" does not trigger patent exhaustion. *Bizcom Elecs.*, 453 F.3d at 1369.

When the case reached this Court, LG Electronics defended the Federal Circuit's second holding at some length. It contended that Quanta was "barred from practicing the systems patents with non-Intel components" because the "sale was accompanied by express notice" of the putative post-sale restriction. Brief of Respondent at *39, *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 2007 WL 4244683. LG Electronics argued that "[h]olders of a patent, like holders of any property, can sell distinct sticks from their bundle of property interests without losing the remainder"; therefore, it asserted that patentees "may impose

reasonable conditions on sale of a patented article." *Id.* at *42.[4]

This Court reversed, holding that Quanta was entitled to the exhaustion defense.

At the outset, the Court characterized "[t]he longstanding doctrine of patent exhaustion" in broad terms, stating that it "provid[es] that the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta*, 553 U.S. at 625. The Court referenced *Adams* v. *Burke*, which it described as holding unenforceable "postsale restrictions" imposed by a patentee. *Quanta*, 553 U.S. at 625. And, although *A.B. Dick* "permitted postsale restrictions on the use of a patented article," *Quanta* noted that the "decision was short lived" and soon "explicitly overruled." *Quanta*, 553 U.S. at 625-626. The Court also relied in substantial measure on the discussion of first-sale exhaustion in *Univis*. *Id.* at 627-628.

Applying these precedents, the Court found that the sale of parts from Intel to Quanta was "authorized." *Id.* at 637. "Nothing" in the LG-Intel agreements restricted Intel's right to sell the microprocessors and chipsets "to purchasers who intend to com-

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[4] LG Electronics' argument was narrower than Lexmark's argument here. LG Electronics recognized that the Court long ago rejected post-sale restrictions relating to "price controls," "geographic or temporal sales limitations," and "tying arrangements with unpatented products." Brief of Respondent at *43. It attempted to distinguish its post-sale restriction as a limit on the "manner in which those purchasers can 'make' the systems," rather than a limit on the "selling" or "using" of a patented article. *Id.* at *45. Here, by contrast, Lexmark seeks to impose restrictions on "selling or using."

bine them with non-Intel parts," like Quanta. *Id.* at 636.

This "authorized" sale, therefore, "triggered" patent exhaustion. *Ibid.* That was so notwithstanding the fact that Quanta "received the notice" imposing post-sale restrictions regarding permissible combinations of the parts. *Id.* at 624.

The Court thus rejected the "conditional sale" doctrine invoked by LG Electronics and endorsed by the Federal Circuit. Notwithstanding the putative post-sale restrictions, LG Electronics could "no longer assert its patent rights against Quanta" because the first "authorized sale" "prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638.

Courts and commentators broadly concluded that *Quanta* repudiated the "conditional sale" doctrine embraced by the Federal Circuit in *Mallinckrodt*. See, *e.g.*, *Ergowerx Int'l, LLC* v. *Maxell Corp. of Am.*, 18 F. Supp. 3d 430, 448 (S.D.N.Y. 2014) ("[T]here is a substantial argument that *Quanta sub silentio* overruled *Mallinckrodt*."); *JVC Kenwood Corp.* v. *Arcsoft, Inc.*, 966 F. Supp. 2d 1003, 1010 n.1 (C.D. Cal. 2013) ("After *Quanta*, however, it is unclear to what extent the *Mallinckrodt* decision applies."); *Static Control Components, Inc.* v. *Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575, 585 (E.D. Ky. 2009) ("*Quanta* overruled *Mallinckrodt sub silentio*.").[5]

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[5] See also, *e.g.*, 12 Phillip E. Areeda & Herbert Hovenkamp, Antitrust Law 300, 301 n.15 (3d ed. 2012) ("To the extent that *Mallinckrodt* relaxed the first-sale doctrine, it was overruled by *Quanta Computer*."); Alfred C. Server & William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following* Quanta, 64 Hastings L.J. 561, 596 (2013) ("The weight of

As the dissenting judges below put it, "[t]he patent exhaustion doctrine, as stated by *Quanta*, admits of no exception." Pet. App. 114a (Dyk, J., dissenting); see also *id.* at 154a (district court in this case holding that "*Mallinckrodt* was overruled by *Quanta* sub silentio").

The Federal Circuit majority suggested that *Quanta* did not address the issue posed here because the articles were sold to Quanta by Intel, a licensee, rather than by the patentee. Pet. App. 30a-31a. But, as explained below in more detail (see pages 38-41, *infra*), patent exhaustion applies identically to sales by licensees and patentees.

The court of appeals also reasoned that *Quanta* did not address patent-based post-sale restrictions because this Court's opinion did not identify by name the leading Federal Circuit precedents (*Mallinckrodt* and *B. Braun Med., Inc.* v. *Abbott Labs.*). Pet. App. 32a. But this Court need not catalog the lower court decisions that its holding overturns—recognizing such reversal is a task for the lower courts.

Quanta is clear: the Federal Circuit relied on its "conditional sale" doctrine (*Bizcom Elecs.*, 453 F.3d

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the evidence indicates that *Mallinckrodt*'s conditional sale doctrine was rejected in *Quanta*."); Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. Ann. Surv. Am. L. 487, 502 (2011) ("In its 2008 *Quanta* decision the Supreme Court unanimously rejected the Federal Circuit's approach and restored the first sale rule to its original broad scope."); Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in* Quanta Computer, Inc. v. LG Electronics, Inc., 49 IDEA 517, 520 (2009) ("[T]he *Quanta* decision amounts to a sweeping reaffirmation of the Court's patent-exhaustion precedents and an implicit rejection of the exhaustion jurisprudence reflected in *Mallinckrodt*.").

at 1370), LG Electronics extensively defended the Federal Circuit's rationale in this Court, and the Court conclusively rejected it. *Quanta*, 553 U.S. at 637-638. That is why courts and commentators alike agree that *Quanta* precludes patent-based post-sale restrictions.

2. A long line of this Court's decisions rejects post-sale restrictions.

Univis and *Quanta* by themselves demonstrate why the Federal Circuit majority's post-sale restriction rule cannot stand—but those decisions do not stand alone. To the contrary, the Court's consistent holdings since the 1850s, other than the short-lived deviation in *A.B. Dick*, reject attempts by patentees to use patent law to enforce post-sale restrictions.

a. The Court's earliest articulations of the patent exhaustion doctrine appear in cases in which, following the sale of a patented article, Congress extended the length of a patent's term. The patentee argued that it could bar the purchaser from using the article during the term extension.

In *Bloomer* v. *McQuewan*, 55 U.S. at 547-548, Bloomer "purchased the right to construct and use" patented planing machines. Subsequent to his purchase, acts of Congress extended the length of the patent. The patentee asserted that the original purchase allowed Bloomer to use the machine only during the original term of the patent and not during the period of the extension. *Ibid.*

The Court rejected that argument, concluding that patent exhaustion barred the patentee's claim. Once "the machine passes to the hands of the purchaser, it is no longer within the limits of the monop-

oly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. If the patentee's rights in that article are infringed, "he must seek redress in the courts of the State, according to the laws of the State"—that is, via tort or contract law—and "not * * * under the law of Congress granting the patent." *Id.* at 549-550.

Similarly, in *Millinger*, 68 U.S. at 351, the Court confirmed that when a "patented machine rightfully passes from the patentee to the purchaser, or from any other person by him authorized to convey it"—that is, when there is an authorized first sale—"the machine is no longer within the limits of the monopoly." Thus, "[b]y a valid sale and purchase the patented machine becomes the private individual property of the purchaser, and is no longer specially protected by the laws of the United States." *Ibid.* See also *Chaffee* v. *Bos. Belting Co.*, 63 U.S. (22 How.) 217, 223 (1859) (Following an authorized sale, a patented article "passes outside of the monopoly, and is no longer under the peculiar protection granted to patented rights.").

b. Subsequently, the Court refused to enforce under the patent laws post-sale restrictions on the purchaser's use of the article.

In *Adams* v. *Burke*, 84 U.S. 453, 453-454 (1873), the patentee authorized Lockhart & Seelye to manufacture and sell patented coffin-lids within a ten mile radius of Boston. *Ibid.* Such geographic restrictions were then a common means of subdividing a patentee's rights. *Id.* at 459 (Bradley, J., dissenting).

Burke, an undertaker, purchased a patented lid from Lockhart & Seelye in Boston, but used it outside the geographic radius. *Id.* at 454-455. The pa-

tentees sued, and this Court rejected the patent claim—concluding that patent exhaustion protected Burke's use. *Id.* at 456-457.

The Court's decision turned on the fact that Lockhard & Seelye's sale to Burke, made within the geographic radius specified in the license, was authorized. *Ibid.* Once a patented article is "lawfully made and sold, there is no restriction on [its] *use* to be implied for the benefit of the patentee or his assignees or licensees." *Id.* at 457. The coffin lids, following the first authorized sale, "passe[d] without the limit of the monopoly" (*id.* at 456), and Burke "acquired the right to this use of [them] freed from any claim of the patentee, though purchased within the ten-mile circle and used without it." (*id.* at 457).

Subsequently, in *Keeler*, 157 U.S. 659, the Court applied the same rationale in holding that a patent-based post-sale restriction does not limit a purchaser's right to resell a patented good. Keeler purchased patented beds in Michigan, from a seller authorized to sell only in Michigan; Keeler then resold the beds in Boston. *Id.* at 659. Keeler was protected by patent exhaustion because "the purchase of the article from one authorized by the patentee to sell it[] emancipates such article from any further subjection to the patent throughout the entire life of the patent." *Id.* at 666.

The Court noted that whether a patentee could "protect himself" via "special contracts brought home to the purchasers" was not an issue before it. *Ibid.*[6]

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[6] The defendant in *Keeler* had suggested that the patentee could have protected itself by placing a notice on the article that it was "Not to be used or resold in [blank]." Br. for Appellants at 7-8, *Keeler*, 157 U.S. 659.

Crucially, however, the Court explained that it was "obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws." *Ibid*; accord, *Jackson* v. *Vaughan*, 73 F. 837, 843 (C.C.N.D. Cal. 1896) (whether geographical limitation could be enforced against purchaser is a "question of contract").

In *Morgan Envelope Co.* v. *Albany Perforated Wrapping Paper Co.*, 152 U.S. 425, 430 (1894), the patent related to a special fixture for dispensing toilet paper. The patentee sold the fixtures with a post-sale restriction—"the understanding that their paper would be subsequently purchased" from the patentee. *Id.* at 432. But the defendants purchased the patented fixtures and, notwithstanding this condition, resold them with the defendants' own brand of toilet paper. *Id.* at 431.

Patent exhaustion, this Court held, barred the patentee from claiming patent infringement. The "original sale by the patentee" caused the fixtures to "pass[] out of the limits of the monopoly." *Id.* at 432. "The patentee having once received his royalty upon such device, he cannot treat the subsequent seller or user as an infringer." *Ibid.* The post-sale restriction was unenforceable.

3. The Court's repudiation of A.B. Dick *confirms that post-sale restrictions cannot be enforced through the patent laws.*

In *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), the Court briefly reversed course. But its quick decision to overrule that precedent provides further confirmation that the exhaustion doctrine bars the use of patent law to enforce post-sale restrictions.

The patentee in *A.B. Dick* sold a patented mimeograph machine with a "License Restriction" requiring purchasers to use the machine with only the patentee's brand of paper and ink. *Id.* at 11. After the defendant sold its own brand of ink to an owner of a patented mimeograph, the patentee brought suit, alleging contributory patent infringement. *Ibid.*

The Court, dividing four to three, held this post-sale restriction enforceable. The Court reasoned that "if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee." *Id.* at 24. And, "[i]f that reserved control of use of the machine be violated, the patent is thereby invaded." *Id.* at 25. This stemmed, the Court explained, from its view that there is a "right to sever ownership and use" with respect to patented articles. *Ibid.*

Three Justices dissented. They explained that patent exhaustion's prohibition on post-sale restrictions was a "settled rule," "established by so many decisions." 224 U.S. at 68 (White, J., dissenting).

A.B. Dick "aroused a storm of protest from the public." Floyd L. Vaughan, *Economics of Our Patent System* 117 (1925). Almost immediately, the Court limited the decision, holding that a "packaging notice that set a minimum retail price for a patented tonic, *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1, 8 (1913), and a purported 'License Notice' that operated to fix the price at which phonographs could be resold, [*Straus*, 243 U.S. at 500-501], were not enforceable under the patent laws." Pet. App. 111a n.2 (dissenting opinion).

Then, just five years after handing down the *A.B. Dick* ruling, the Court expressly overruled it in *Mo-*

tion Picture Patents Co. v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917).

There, the patentee authorized Precision Machine Company to sell patented film projectors; the patentee required that the sales agreement contain a "restriction and condition" limiting the projector's use to film reels embodying the patentee's separate patent. *Id.* at 506-507. The defendant, however, purchased a patented protector and used it with other film reels, in violation of the post-sale restriction. *Id.* at 507-508.

Repudiating the logic of *A.B. Dick*, the Court explained that "[t]he extent to which the use of the patented machine may validly be restricted * * * is a question outside the patent law." *Id.* at 509. The Court rejected the view "that, since the patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses." *Id.* at 514. Following the sale of the patented article, the patentee may not "subject" patented goods "to conditions as to use or royalty to be paid." *Id.* at 516.

The Court held—contrary to *A.B. Dick*—that a patentee's rights are "exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of *every* restriction which the vendor may attempt to put upon it." *Ibid.* (emphasis added). The Court explicitly stated that *A.B. Dick* "must be regarded as overruled." *Id.* at 518. See also *Quanta*, 553 U.S. at 626 ("the Court explicitly overruled *A.B. Dick*").

In sum, *A.B. Dick* rested on an understanding of the divisibility of rights to use patented articles that

Motion Picture Patents expressly rejected. See 6 *Moy's Walker on Patents* § 19:21 (4th ed. 2016) (explaining that the Court rejected the view "that the patent owner could divide title in a patented article at will").

After *A.B. Dick*, the Court consistently refused to permit the enforcement of post-sale restrictions under the patent laws. In *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U.S. 8, 25 (1918), the Court held that "one who had sold a patented machine * * * could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied." *Motion Picture Patents*, the Court recognized, resolved "the *general* question of the power of the patentee to sell and yet under the guise of license or otherwise to put restrictions which in substance were repugnant to the rights which necessarily arose from the sale which was made." *Id.* at 24. The Court therefore concluded that a post-sale restriction fixing resale prices was not enforceable via the patent laws. *Id.* at 25.

By 1926, the Court considered it "well settled" that "where a patentee makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase." *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 489 (1926). And the rule has remained fixed ever since. See, *e.g.*, *United States* v. *Line Materials Co.*, 333 U.S. 287, 300 (1948) (noting "the fixed rule that a sale of the patented article puts control of the purchaser's resale price beyond the power of the patentee"); *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 457 (1940) ("[B]y the authorized sales of the fuel by refiners to jobbers the patent monopoly over it is exhausted, and after the sale neither appel-

lant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold."); *United States* v. *United Shoe Mach. Co. of N.J.*, 247 U.S. 32, 58 (1918) (A patentee "cannot grant the title" to a patented article yet "retain the incidents of it.").

This Court's express repudiation of *A.B. Dick*—and its continued adherence to that position—provides further confirmation that the decision below—which would resurrect *A.B. Dick*'s discredited rule—is manifestly wrong. See Pet. App. 110a-111a ("The holding of *A.B. Dick* * * * is the same as * * * the majority's holding in this case.").

4. Mitchell *v.* Hawley*'s reference to "conditions" does not authorize post-sale restrictions.*

The court of appeals rested its contrary interpretation of this Court's precedents on language in *Mitchell* v. *Hawley*, 83 U.S. 544, 548 (1872)—and repeated in subsequent opinions—relating to sales "with or without conditions." Pet. App. 38a-39a, 42a-43a, 50a. In discussing patent exhaustion, the *Mitchell* Court explained:

> Sales of the kind may be made by the patentee with or without conditions, as in other cases, but where the sale is absolute, and without any conditions, the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out, or he may repair it or improve upon it as he pleases, in same manner as if dealing with property of any other kind.

Ibid. See also *Motion Picture Patents*, 243 U.S. at 516 (exhaustion triggered by "a single, unconditional sale").

The Federal Circuit, and Lexmark, seize upon the reference to a sale that is "absolute, and without any conditions"—and assert that a sale agreement imposing post-sale restrictions on use of the patented article is "conditional" and not "absolute," and therefore falls outside the exhaustion doctrine. Cert. Opp. 8.

This argument rests on an erroneous interpretation of *Mitchell*'s reference to a "sale [that] is absolute, and without any conditions."

As the dissent below explained (Pet. App. 114a-116a), a "conditional sale" was understood at the time (and is understood today) as a sale that is contingent upon—and thus not complete until—the satisfaction of a specified condition. *Mitchell*'s reference to a sale "without any conditions" thus meant a sale in which title had been transferred, either because there was no condition precedent to transfer (an "absolute" sale) or because the condition precedent had been satisfied.

Mitchell's holding, therefore, is that if title has not yet transferred to the purchaser, there is no completed sale that triggers exhaustion. *Mitchell* does not address the situation presented here, and in all of the cases just discussed—in which title has transferred and the patentee is attempting to enforce a post-sale restriction via patent law.

Black's Law Dictionary—which dates the term to the eighteenth century, defines a "conditional sale" as a "sale in which the buyer gains immediate possession but the seller retains title until the buyer

performs a condition, esp. payment of the full purchase price." *Sale*, Black's Law Dictionary (10th ed. 2014). In contrast, an "absolute sale" is a "sale in which possession and title to the property pass to the buyer immediately upon the completion of the bargain." *Ibid.*

That definition reflects this Court's cases, which have long distinguished a "conditional sale" from an "absolute sale"—including in decisions rendered during the same era as *Mitchell*.

Thus, in *Harkness* v. *Russell & Co.*, 118 U.S. 663, 666 (1886), following a review of multiple treatises, the Court explained that a "conditional sale" is a "mere agreement to sell upon a condition to be performed." The condition may be imposed on either buyer or seller; thus, "'[w]here the buyer is by the contract bound to do anything as a condition, either precedent or concurrent, on which the passing of the property depends, the property will not pass until the condition be fulfilled, even though the goods may have been actually delivered into the possession of the buyer.'" *Id.* at 668. Accord *Fosdick* v. *Schall*, 99 U.S. 235, 246 (1878) (describing a transaction in which there was "a right of rescission on the part of the vendor in case the purchaser should fail in payment of his instalments" as a "conditional sale").

Numerous decisions of this Court apply the same definition of "absolute" and "conditional" sales. See, *e.g.*, *Bailey* v. *Baker Ice Mach. Co.*, 239 U.S. 268, 272 (1915) (describing the "distinction" between "a conditional sale and an absolute sale"); *Bryant* v. *Swofford Bros. Dry Goods Co.*, 214 U.S. 279, 290 (1909) ("We think it clear that the contract under which the goods were delivered to the Newtons was one of conditional sale."); *Southard* v. *Russell*, 57 U.S. (16

How.) 547, 567 (1853) (referring to "a conditional sale to become absolute on the failure to refund the purchase-money within the time").

For these reasons, *Mitchell*'s statement that patent exhaustion is triggered by an "absolute"—and not a "conditional"—sale simply reaffirms that patent exhaustion attaches when title to the patented article passes to the purchaser. That is unremarkable: transfer of title of the patented good has *always* been the linchpin of exhaustion. See, *e.g.*, *Chaffee*, 63 U.S. at 223 (the first-sale doctrine applies when "a person legally acquires a title to that which is the subject of letters patent").

The use of the term "conditional" in *Mitchell* and other cases therefore is completely irrelevant to whether—once title has been transferred to the purchaser—the patentee may enforce patent-based post-sale restrictions.[7] That is why *Mitchell* is completely consistent with the numerous opinions of this Court, discussed above, in which the Court has expressly held that such post-sale restraints may be enforced through patent law.[8]

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[7] In *Goodyear* v. *Beverly Rubber Co.*, 10 F. Cas. 638 (C.C.D. Mass. 1859), the court explained that, "[b]y virtue of the contract of sale, and *the unconditional delivery of the manufactured article*, it passes outside of the monopoly, and is no longer under the peculiar protection granted to patented rights." *Id.* at 641 (emphasis added).

[8] Lexmark cannot contend that its sale of cartridges is "conditional" within the meaning of *Mitchell*. Lexmark's transfer of title to the printer cartridges was not contingent on performance of any subsequent condition. Nor is there any agreement that title to the cartridges could ever revert to Lexmark. Indeed, Lexmark acknowledges that its customers are not obligated to return spent cartridges to Lexmark. And Lexmark expressly

C. Section 271(a) does not alter the pre-1952 exhaustion rule.

The Federal Circuit majority also grounded its rejection of this Court's precedents in the text of Section 271(a), which provides:

> Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

35 U.S.C. § 271(a).

The majority argued that "exhaustion doctrine" is "an interpretation of [Section] 271(a)'s 'without authority' language." Pet. App. 25a. Under Section 271(a), the court reasoned, "it is a conferral of 'authority' by the patentee that is needed in order for the actions listed in [Section] 271(a) not to constitute infringement." *Id.* at 24a. Thus, it contended, exhaustion depends on what "authority" the patentee chooses to convey when selling a patented article: "[A] clear denial of authority leaves a buyer without the denied authority." *Id.* at 40a-41a.

That analysis is flawed for multiple reasons.

First, patent exhaustion is a "limit" on "the patent rights that survive the initial authorized sale of a patented item." *Quanta*, 553 U.S. at 621. This principle—that exhaustion is a "limit" on a patentee's rights—is the foundation of the exhaustion doctrine. See *Bowman*, 133 S. Ct. at 1766 & n.2; *Aro Mfg.*, 377

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maintains "that its transfer of the Return Program Cartridges to its customers constitutes a sale of property." Pet. App. 5a.

U.S. at 497. Section 271(a)'s reference to the rights a patentee has *absent* a first sale thus says nothing about the "limit" that exhaustion imposes.[9]

As the dissent below explained, the Federal Circuit majority's reliance on Section 271(a) was therefore "misplaced." Pet. App. 119a. "The focus of patent exhaustion is not whether the *buyer* has been expressly or impliedly authorized to sell or use a product in a certain way after the sale"; rather, the analysis "begins and ends with an inquiry of whether the *seller* had authorization to make a sale." *Id.* at 119a-120a.

In the language of Section 271(a), the patent exhaustion doctrine supplies the "authority" for a purchaser to use and sell the specific patented good. That is because, once an authorized sale has occurred, the article passes beyond the "limits of the monopoly" (*Bloomer*, 55 U.S. at 549) and the seller lacks the power to perpetuate the monopoly after the sale.

Second, Section 271(a) did not alter the legal principles embodied in this Court's pre-1952 exhaustion decisions. See *Global-Tech Appliances, Inc.* v. *SEB S.A.*, 563 U.S. 754, 761 (2011) ("Finding no definitive answer in the statutory text, we turn to the case law that predates the enactment of § 271 as part [of] the Patent Act of 1952."); *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 530 n.10 (1972). Cf.

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[9] *Motion Picture Patents* identified the "defect in this thinking"—it is a " failure to distinguish between the rights which are given to the inventor by the patent law" as opposed to the "rights which he may create for himself by private contract." *Motion Picture Patents*, 243 U.S. at 514.

Aro Mfg. Co. v. *Convertible Top Replacement Co.*, 377 U.S. 476, 485-486 & n.6 (1964).[10]

As explained above, this Court's decisions in *Univis* and other cases established, prior to 1952, that a patentee may not exert patent-based post-sale control. Nothing in the text of Section 271(a) evinces an intent to displace patent exhaustion. And, following enactment of Section 271, *Quanta* and *Bowman* held that pre-1952 precedents continue to "govern[]" exhaustion. *Quanta*, 553 U.S. at 631. See also *id.* at 625-628 (relying upon pre-Section 271(a) authority); *Bowman*, 133 S. Ct. at 1766 (same).

D. The same patent exhaustion rule applies to sales by patentees and licensees.

To support its contrary decision, the Federal Circuit made repeated reference to a supposed distinction between patentees and licensees. See, *e.g.*, Pet. App. 26a, 28a, 30a-31a, 34a-35a, 37a, 43a-44a, 46a-47a, 55a-56a. In particular, the court interpreted *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 175, *aff'd on reh'g*, 305 U.S. 124 (1938), to hold that a patentee can impose patent-based post-sale restrictions if an article is sold by a *licensee*. Pet. App. 26a; 43a-44a. Based on that view, the majority asserted that sales by patentees should benefit from the same legal rule.

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[10] "[W]hen Section 271 was drafted and submitted to the Senate in 1952, Senator Saltonstall asked: 'Does the bill change the law in any way or only codify the present patent laws?' Senator McCarran, Chairman of the Judiciary Committee, responded: 'It codifies the present patent laws.'" *Deepsouth Packing*, 406 U.S. at 531 n.10 (quoting 98 Cong. Rec. 9323).

In fact, as it relates to patent exhaustion, there is no distinction between authorized sales made by patentees and those made by licensees: exhaustion applies to both.

To begin with, patent exhaustion is triggered by "the initial *authorized* sale of a patented item." *Bowman*, 133 S. Ct. at 1766 (emphasis added).

When a patentee itself sells a patented item, it has necessarily "authorized" that sale. A patentee—like other market participants—may establish the terms on which it offers its goods for sale. It can, for example, set the price at which it will sell its patented articles; it can control the range of buyers to whom it will sell; and it can restrict the geography of its sales. When the patentee completes a sale, the passage of title triggers patent exhaustion.

Alternatively, a patentee can license another to manufacture and sell its patented articles. When it does so, the patentee may establish the terms on which the licensee is authorized to sell the patented article. It can, for example, set the price at which the licensee may sell the good, to whom the licensee may sell it, and limit the geographic area in which the licensee may sell. If the licensee makes a sale in compliance with the terms imposed by the patentee, then the sale is "authorized," triggering patent exhaustion. If the licensee breaches these terms, then its sale is *not* "authorized"; in those circumstances, the licensee is no different than any third-party infringer.

General Talking Pictures applied this unexceptional last point—patent exhaustion does not apply when a licensee's sale is outside the scope of its authority.

There, a patentee granted the Transformer Company a license to manufacture and sell amplifiers for home use; it gave other companies licenses to produce the patented amplifiers for commercial use. 304 U.S. at 179-180. Yet, the Transformer Company knowingly sold the amplifiers to the defendant for commercial use. *Id.* at 180. And the defendant, "when purchasing from the Transformer Company for that use, had actual knowledge that the latter had no license to make such a sale." *Ibid.*

The "Court held that exhaustion did not apply because the manufacturer had no authority to sell the amplifiers for commercial use, and the manufacturer 'could not convey to petitioner what both knew it was not authorized to sell.'" *Quanta*, 553 U.S. at 636 (quoting *Gen. Talking Pictures*, 304 U.S. at 181). The sales were not "made under the patents or the authority of their owner." *Gen. Talking Pictures*, 304 U.S. at 181.

On rehearing, the Court confirmed this conclusion: "As the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted to [the manufacturer]." *Gen. Talking Pictures*, 305 U.S. at 127. The Court therefore had no "occasion to consider the effect of a 'licensee's notice' which purports to restrict the use of articles lawfully sold." *Ibid.*

General Talking Pictures does not suggest, as the court of appeals believed (Pet. App. 26a), that an *authorized* sale by a licensee can result in patent-based post-sale restrictions. Nor could it. In *Keeler*, a licensee was authorized to sell and use patented beds only in Michigan; the licensee made an authorized sale to Keeler in Michigan. 157 U.S. at 659. Following that

sale, this Court held that the geographic restriction imposed on the licensee had no effect on the purchaser. *Id.* at 666. So too in *Quanta*—after Intel made an authorized initial sale, the post-sale restriction was unenforceable. 553 U.S. at 636-638.

Whether an article is sold by a patentee or a licensee, patent exhaustion applies as long as the sale is authorized.[11]

E. The Federal Circuit's rule would dramatically expand the patent monopoly, enabling patentees to eliminate long-established competitive markets.

In the Federal Circuit's view, patent exhaustion is merely a presumption—and any patentee may circumvent it by imposing a putative restriction at the time of sale. See, *e.g.*, Pet. App. 40a-41a. This Court explained in 1895 that "[t]he inconvenience and annoyance to the public" imposed by such post-sale restrictions "are too obvious to require illustration." *Keeler*, 157 U.S. at 667. The consequences would indeed be dramatic:

Foreclosure of secondary markets for patented goods. Countless goods today are protected by patents—for example, automobiles, consumer electronics, and heavy machinery. Under the Federal Circuit's approach, any patentee could preclude purchasers of patented articles from reselling them. An auto manufacturer, for instance, could bar its cus-

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[11] If a patentee leases or licenses—rather than sells—a patented good, patent exhaustion does not apply because there has been no transfer of title. See *Chaffee*, 63 U.S. at 223. Because the patentee still *owns* the good, it also still owns—and may control—the patent rights to that good.

tomers from reselling its cars—and then enforce that restriction against used car dealers. Or a manufacturer could restrict used car sales to only "authorized" retailers, and control the price at which used cars are bought and sold.

Since Lord Coke, however, "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods" has been well established. *Kirtsaeng*, 133 S. Ct. at 1363. "American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer." *Ibid.*

Free markets for used products are a bedrock of the economy. Owners sell goods when they no longer need them, monetizing an asset they possess. Others, in turn, acquire used goods at discounted prices. Reuse is also good for the environment, as it precludes waste.

Foreclosure of repair markets. The ability of individuals to repair patented goods rests on patent exhaustion. See, *e.g.*, *Aro Mfg.*, 377 U.S. at 484. If patent exhaustion were optional, patentees could forbid users from repairing their patented goods. Or patentees could restrict repairs to repair shops owned or licensed by the patentee.

Patent law has always "reflect[ed] a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition." *Bonito Boats*, 489 U.S. at 146. It is hard to imagine what could stifle competition more than allowing patentees to eviscerate repair markets for patented goods.

Beyond these devastating harms to competition, the decision below interferes with markets in other,

more indirect ways. By permitting a patentee to demand additional royalties from downstream purchasers, the decision below multiplies the transaction costs of producing goods using patented articles and thereby creates inefficiency. Likewise, it forces businesses—and even consumers—to expend resources discerning whether their use is permitted by the terms of sale. See Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausus Principle*, 110 Yale L.J. 1, 8 (2000) ("The existence of unusual property rights increases the cost of processing information about all property rights.").

The Court long ago devised a simple solution to avoid this heavy burden: the patentee is entitled to determine the amount of his or her reward at the time of a first sale, but once that payment is made and title transfers, patent rights are exhausted.

To the extent that patentees nonetheless desire to exercise control over the downstream use and/or sale of their products, they may—like sellers of non-patented goods—impose restrictions on purchasers enforceable through contract law. See note 2, *supra*. Alternatively, a patentee may decide only to lease, and not sell, articles embodying its patent. But, as *Univis*, *Quanta*, and the nearly two centuries of exhaustion jurisprudence make clear, the need to strike a balance between patent rights and the public interest bars patentees from using the patent law to enforce post-sale restrictions. Rather, the patentee "surrender[s]" its "limited monopoly" by making a first sale. *Univis*, 316 U.S. at 250.

II. The Foreign Sale Of A Patented Article Authorized By The U.S. Patentee Exhausts U.S. Patent Rights.

A sale outside the United States, if authorized by the U.S. patentee, exhausts U.S. patent rights. That conclusion is compelled by this Court's precedents, as well as the adverse practical consequences—for U.S. consumers, businesses, and workers—that will result from the Federal Circuit's contrary rule.

A. This Court's precedents mandate exhaustion based on non-U.S. sales.

The Court's holding in *Kirtsaeng* regarding the common-law doctrine underlying the exhaustion principle—that "[t]he common-law doctrine makes no geographical distinctions" (133 S. Ct. at 1363)—is dispositive of the second question presented in this case. *Kirtsaeng* established that the common-law rule, which has no territorial limitation, applies unless the Patent Act provides otherwise, and there is no contrary statutory provision. Moreover, because patent and copyright often protect the same article, it would be odd indeed if exhaustion were international in one context, but territorial in another.

Quanta and earlier lower court cases lend further support to the conclusion that, contrary to the Federal Circuit majority's decision, patent exhaustion may be based on sales outside the United States. *Boesch* v. *Graff*, 133 U.S. 697 (1890), a case involving sales *not* authorized by the U.S. patentee, does not support the contrary rule.

1. Kirtsaeng's *analysis resolves this question.*

The question presented in *Kirtsaeng* was whether the first-sale exhaustion doctrine under copyright law applied to copies of works lawfully sold abroad. *Kirtsaeng*, 133 S. Ct. at 1355. The first-sale doctrine is codified in the Copyright Act (see 17 U.S.C. § 109), but Section 109's text did not clearly answer the question whether the doctrine applied to foreign sales.

This Court therefore consulted the familiar "canon of statutory interpretation" that "'[w]hen a statute covers an issue previously governed by the common law,' we must presume that 'Congress intended to retain the substance of the common law.'" *Kirtsaeng*, 133 S. Ct. at 1363.

In analyzing the common-law first-sale doctrine, the Court turned to the relevant passage from Lord Coke's Institutes:

> [If] a man be possessed of ... a horse, or of any other chattell ... and give or sell his whole interest ... therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest ... is out of him, so as he hath no possibilit[y] of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man: and it is within the reason of our Author that it should ouster him of all power given to him.

Kirtsaeng, 133 S. Ct. at 1363 (quoting 1 E. Coke, Institutes of the Laws of England § 360, at 223 (1628)).

The Court observed that by referring to the conflict between restraints on alienation and "Trade and Traffi[c]," "Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods." *Kirtsaeng*, 133 S. Ct. at 1363. And the Court noted that "American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer." *Ibid.*

The Court concluded that the "common-law doctrine" against restraints on alienation "makes no geographical distinctions." *Kirtsaeng*, 133 S. Ct. at 1363. That analysis was not specific to copyright—but the Court held that it applied to authorized sales of copyrighted works because nothing in Section 109 of the Copyright Act overrode the common-law rule.

This conclusion is dispositive here. Unlike the Copyright Act, the Patent Act does not expressly address patent exhaustion, much less define its geographic scope. See Pet. App. 23a n.5. The common law is thus the only relevant consideration in determining the geographic scope of patent exhaustion.

Moreover, this Court has previously recognized that Lord Coke's explication of the common law rule is as pertinent to patent exhaustion as it is to copyright. See *Straus*, 243 U.S. at 500-501 (noting that a patentee's attempt "to place restraints upon [a patented product's] further alienation * * * have been hateful to the law from Lord Coke's day to ours"). *Kirtsaeng*'s reading of Lord Coke—and its holding regarding the contours of the common-law exhaustion rule—thus compels the conclusion that a sale of a patented article authorized by the U.S. patentee, wherever in the world it occurs, exhausts the patentee's U.S. patent rights.

The Federal Circuit's attempts to distinguish *Kirtsaeng* are unavailing. *First*, the lower court argued that *Kirtsaeng* is inapposite because *Kirtsaeng* interpreted a specific provision of the Copyright Act that lacks an analogue in the Patent Act. Pet. App. 69a-70a. But that difference makes the case for international exhaustion stronger in the patent context. *Kirtsaeng* looked to the underlying common-law principles in order to illuminate the meaning of Section 109 of the Copyright Act—and also addressed whether Section 109's codification of the exhaustion rule evidenced Congress's intent to alter the common law rule. Because there is no Patent Act provision codifying the exhaustion doctrine, the case for applying the common-law rule is even clearer.[12]

Second, the Federal Circuit referenced the "distinctness of the copyright and patent regimes." Pet. App. 69a. But *Kirtsaeng* examined the common law doctrine of restraints on alienation of property—which is the root of both copyright and patent exhaustion. And, with respect to exhaustion, the Court has already held that "there is a strong similarity between and identity of purpose in the two statutes." *Bauer & Cie*, 229 U.S. at 13.

Indeed, copyright and patent exhaustion have long enjoyed a close kinship. *Kirtsaeng* explained that "the 'first sale' doctrine has played an important role in American copyright law" since at least *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908). 133 S. Ct.

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[12] Although Section 271(a) grants a patentee the exclusive right to "import[]" into the United States a patented invention, patent exhaustion limits a patentee's otherwise existing rights. See pages 36-38, *supra*. The Patent Act thus does not address whether sales abroad exhaust U.S. patent rights.

at 1364. The Court has repeatedly considered *Bobbs-Merrill* in patent cases. See, *e.g.*, *Gen. Elec.*, 272 U.S. at 493; *Am. Graphophone*, 246 U.S. at 21; *Gen. Talking Pictures*, 304 U.S. at 185 n.3 (Black, J., dissenting). *Kirtsaeng*'s analysis is therefore equally applicable here.

Harmonizing copyright and patent exhaustion makes good practical sense as well. Products are often protected by both intellectual property laws. In consumer electronics, the hardware typically is protected by patent law, the software by both copyright and patent, and the operating manual and packaging by copyright. See *Kirtsaeng*, 133 S. Ct. at 1365 ("[A]utomobiles, microwaves, calculators, mobile phones, tablets, and personal computers contain copyrightable software programs or packaging."). A legal regime under which a foreign sale exhausts the manufacturer's copyright—but not its patent—makes little sense and would add costly complexity and gamesmanship to international trade.

2. Quanta *confirms that international sales exhaust patent rights.*

This Court's decision in *Quanta*, discussed above (see pages 20-25, *supra*), also supports the international exhaustion rule.

In addressing the first question before the Court in *Quanta*—whether Intel's authorized sale of computer parts exhausted LG Electronics' method patents—the critical issue was whether the "methods" were "'embodied' in a product, the sale of which exhausts patent rights." *Quanta*, 553 U.S. at 628.

The Court began from the premise that, under *Univis*, "the authorized sale of an article which is capable of use only in practicing the patent is a relin-

quishment of the patent monopoly with respect to the article sold." *Id.* at 631 (quoting *Univis*, 316 U.S. at 249). Because LG Electronics had not identified any "reasonable use for the Intel Products other than incorporating them into computer systems that practice the LGE Patents" (*id.* at 632), the Court held that Intel's sales had exhausted the patent rights.

LG Electronics argued that Intel's products did not satisfy the *Univis* test because they "would not infringe its patents if they were sold overseas, used as replacement parts, or engineered so that use with non-Intel products would disable their patented features." *Id.* at 632 n.6. But this Court rejected that argument, explaining that patent exhaustion depends on whether "the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing." *Ibid.* (quoting *Univis*, 316 U.S. at 249). Even if "*outside the country*," this Court held, "the Intel Products would still be *practicing* the patent, even if not infringing it." *Ibid.* (emphasis added).

Quanta thus establishes that an article sold outside the United States can *practice* a U.S. patent. It follows that foreign sales of patented articles exhaust U.S. patent rights—because the authorized sale of an article that practices the patent is what triggers exhaustion. *Univis*, 316 U.S. at 249.

This result accords with the "single-reward" principle animating patent exhaustion. See page 15, *supra*. Long ago, the Court explained that a patentee is "entitled to but one royalty for a patented machine." *Millinger*, 68 U.S. at 350. When the patentee sells the good, "he receives the consideration for its use and he parts with the right to restrict that use." *Adams*, 84 U.S. at 456. That applies to foreign sales—when the U.S. patentee authorizes the sale

abroad, it receives its "tribute" (*Keeler*, 157 U.S. at 667), exhausting its rights to that item.

3. Pre-1952 lower court precedents preclude the Federal Circuit's domestic-only exhaustion rule.

The Federal Circuit's holding—that a foreign sale authorized by the U.S. patentee can *never* exhaust U.S. patent rights—is also inconsistent with early decisions of the lower courts.

In *Holiday* v. *Mattheson*, 24 F. 185 (C.C.S.D.N.Y. 1885), for example, the court concluded that the sale in England "of a vendee of the patentee" exhausted the U.S. patent rights. *Id.* at 185. Likewise, in *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Engineering Corp.*, 266 F. 71, 78 (2d Cir. 1920), the court held that, "[i]f the vendor's patent monopoly consists of foreign and domestic patents, the sale frees the article from the monopoly of both his foreign and his domestic patents, and where there is no restriction in the contract of sale the purchaser acquired the complete title and full right to use and sell the article in any and every country." The Federal Circuit's holding below is inconsistent with these decisions.

The United States agrees that the Federal Circuit's holding is wrong. It argues that, while a foreign sale authorized by the U.S. patentee presumptively exhausts U.S. patent rights, a patentee may exempt a foreign sale from exhaustion by "reserv[ing] his U.S. rights * * * if he does so expressly." U.S. Cert. Br. 17. The government points to a few lower court cases that permit such restrictions. See, *e.g.*, *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir.

1893); *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897).

That result is contrary to *Kirtsaeng*. And it is inconsistent with this Court's repeated holdings in the line of decisions culminating in *Univis* and *Quanta* that the exhaustion doctrine is a fixed limit on patent rights, not a presumptive rule that a patentee can alter by inserting conditions into a sales contract. See pages 13-36, *supra*.

In any event, the government's authority necessarily shows—and the government agrees—that the Federal Circuit's categorical rule is incorrect. It certainly lends no support to Lexmark's contention that foreign sales *never* exhaust.

4. Boesch does not support limiting exhaustion to domestic sales.

The Federal Circuit rested its rejection of international exhaustion principally on this Court's decision in *Boesch*. See Pet. App. 65a, 68a-69a, 81-84a, 97a, 102a. But *Boesch* is entirely consistent with an international exhaustion rule.

In *Boesch*, the assignees of a U.S. patent for an "improvement in lamp-burners" brought suit for infringement against a dealer who had imported the patented burners into the United States. 133 U.S. at 698. The dealer bought the burners in Germany from Hecht, who was allowed to sell them under German law because he had been making "preparations to manufacture the burners prior to the application for the German patent." *Id.* at 701. The question raised by this chain of events was "whether a dealer * * * can purchase in another country articles patented there, from a person authorized to sell them, and import them to * * * the United States, *without the li-*

cense or consent of the owners of the United States patent." *Id.* at 702 (emphasis added).

The Court held that the importation infringed the U.S. patent. It noted that "[t]he right which Hecht had to make and sell the burners in Germany was allowed him [only] under the [particular] laws of that country." *Id.* at 703. "[P]urchasers from him could not be thereby authorized to sell the articles in the United States"—because he was neither the U.S. patentee nor an authorized licensee of the U.S. patentee. *Ibid.*

Boesch thus stands only for the unremarkable proposition that patent exhaustion cannot occur unless the sale of a patented article is authorized by the U.S. patentee. As the government pointed out at the certiorari stage, *Boesch* "had no occasion to decide whether, or under what circumstances, a foreign sale that is made or authorized by the U.S. patent holder * * * will exhaust U.S. patent rights." U.S. Cert. Amicus Br. 17-18. Many courts and commentators have endorsed the same conclusion.[13]

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[13] See *Curtiss Aeroplane*, 266 F. at 77 (distinguishing *Boesch* as a case "in which there [was] no participation whatever by the owner of the patent, either as a party or as a privy, in the putting out of the article which [was] alleged to infringe"); Daniel J. Hemel & Lisa Larrimore Ouellette, *Trade and Tradeoffs: The Case of International Patent Exhaustion*, 116 Colum. L. Rev. Sidebar 17, 19 n.6 (2016) (calling *Jazz Photo*'s reliance on *Boesch* "mistaken" because *Boesch* "did not involve an authorized first sale—it involved a German sale that was legal (due to prior user rights under German law) but that the patentee did not authorize"); Harold C. Wegner, *Post-Quanta, Post-Sale Patentee Controls*, 7 J. Marshall Rev. Intell. Prop. L. 682, 698 (2008) ("*Boesch* has nothing to do with patent exhaustion be-

The court of appeals based its contrary conclusion on *Boesch*'s statement that "[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws." Pet. App. 83a (quoting *Boesch*, 133 U.S. at 703). But all that *Boesch* meant by that statement was that in order for U.S. patent exhaustion to occur, a sale must be authorized by the U.S. patentee—it is not enough that the sale was legal under the laws of another country. The Court did not hold that foreign sales can never have consequences under U.S. patent law.

5. International exhaustion is consistent with the Patent Act's domestic reach.

The Federal Circuit also asserted that patent law's "territorial" nature is a reason to reject international exhaustion. See Pet. App. 84a-86a. But that is clearly incorrect in light of *Kirtsaeng*.

Copyright law is also territorial: "The Copyright Act, it has been observed time and again, does not apply extraterritorially." *Kirtsaeng*, 133 S. Ct. at 1376 (Ginsburg, J., dissenting). Even so, *Kirtsaeng* held that a U.S. copyright is exhausted by the authorized sale of a copy of the work outside the United States. *Id.* at 1371. There is no basis for a different result with respect to patent rights.

This "territorial" argument is also belied by *Quanta*. In holding (1) that products sold "outside the country" nonetheless "would still be *practicing* the patent" (*Quanta*, 553 U.S. at 632 n.6) and (2) that "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to

---

cause there was no patent right, German or otherwise, that was exercised").

the article sold" (*id.* at 631), the Court indicated that sales of goods outside the United States may exhaust U.S. patent rights.

6. U.S. trade agreements do not preclude international exhaustion.

The Federal Circuit identified certain U.S. trade agreements—including with Australia and Morocco—that specifically preserved the ability of U.S. patentees to restrict exhaustion when sales are made in specific countries. Pet. App. 87a-88a. These agreements are wholly irrelevant to determining the scope of exhaustion under the Patent Act.

First, the implementing legislation for the agreements states that they do not modify U.S. law. See U.S.-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-286, § 102(a), 118 Stat. 919, 921 (2004) (nothing in the implementing legislation "shall be construed * * * to amend or modify any law of the United States," "unless specifically provided for in" the legislation); U.S.-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, § 102(a), 118 Stat. 1103, 1104-1105 (2004) (same). These agreements therefore do not establish any rule of exhaustion.

Second, the agreements' treatment of copyright confirms that they supply no reason to reject international exhaustion. For example, the U.S.-Morocco Free Trade Agreement requires the United States to permit copyright holders to prevent the importation of copies of works lawfully made abroad. See Free Trade Agreement, Morocco-U.S., art. 15.5(2), June 15, 2004. Yet, in *Kirtsaeng*, this Court held that sales outside the United States exhaust U.S. copyrights.

Third, Congress subsequently enacted appropriations riders that prevent the United States from agreeing to similar international-exhaustion provisions in future trade agreements. See, *e.g.*, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, Pub. L. No. 109-108, § 631, 119 Stat. 2290, 2344 (2005) ("None of the funds made available in this Act may be used to include in any new bilateral or multilateral trade agreement the text of" the pertinent provisions of the Singapore, Australia, and Morocco agreements.). The reason for this, as the rider's sponsor explained, was to prevent opponents of international exhaustion from attempting to "enshrine" domestic-only exhaustion in trade agreements. *Fiscal Year 2006 Defense Appropriations and the Fiscal Year 2006 Science, State and Justice Appropriation Bills: Hearing Before the H. Comm. on Appropriations*, 109th Cong., 2005 WL 1350973 (June 7, 2005).

Finally, the international community is moving toward international exhaustion. At least 24 countries have adopted rules of international patent exhaustion. See World Intellectual Property Organization [WIPO] Committee on Development and Intellectual Property ("CDIP"), *Patent Related Flexibilities in the Multilateral Legal Framework and Their Legislative Implementation at the National and Regional Levels*, Annex II, Fifth Session, CDIP/5/4 (Mar. 1, 2010).

B. International exhaustion benefits American workers, consumers, and industry.

The Federal Circuit's domestic-only exhaustion rule has negative repercussions for American workers, consumers, and industry alike.

First, domestic-only exhaustion raises prices for U.S. consumers. If a patentee authorizes articles practicing its patent to be sold abroad at prices lower than those offered within the United States, American consumers should be permitted to purchase those goods for use in the United States. Lexmark's contrary view seeks to use the patent laws to permit price discrimination against American consumers—making U.S. consumers pay more for the very same goods.

As this Court made clear in the copyright context, "the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain." *Kirtsaeng*, 133 S. Ct. at 1371. So, too, here: the patent laws are designed to "promot[e]" "the progress of science and the useful arts" (*United States* v. *Masonite Corp.*, 316 U.S. 265, 278 (1942))—not to provide a windfall to patent owners by allowing them to discriminate against American consumers.[14]

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[14] To the extent desirable (see Pet. App. 86a), patentees may achieve price discrimination in other ways. They may impose contracts on purchasers or they may lease goods. Manufacturers may use region-specific software, packaging, or languages. What patentees may not do is create an "end-run around exhaustion." *Quanta*, 553 U.S. at 630.

Concerns that imported products could pose safety risks are properly addressed by consumer-protection laws and the dozens of federal and state regulators, including the Food & Drug Administration, the National Highway Traffic Safety Administration, and the Federal Trade Commission. The patent laws are not a free-floating source of consumer protection.

Domestic-only exhaustion is impractical. An American tourist should not fear that a camera purchased while on vacation will infringe a U.S. patent when brought home. Cf. *Kirtsaeng*, 133 S. Ct. at 1365 ("But under a geographical interpretation a contemporary tourist who buys, say, at Shakespeare and Co. (in Paris), a dozen copies of a foreign book for American friends might find that she had violated the copyright law.").

Second, in light of increasingly complex supply chains, the Federal Circuit's domestic-only rule creates a logistical nightmare—with the attendant costs shouldered by consumers. Modern products, such as consumer electronics, automobiles, and heavy machinery, incorporates hundreds (if not thousands) of components. Under the domestic-only rule, a manufacturer must trace the provenance of every component, sub-component, and sub-sub-component to verify that its products do not infringe the supplier's patent rights.

Third, the domestic-only exhaustion rule permits a patentee to extract multiple awards for the sale of the same good—once at the time of initial sale, and then again at the time of importation into the United States. And it permits a patentee to obtain an oversized reward for its rights. After a manufacturer produces a product using components it lawfully acquired, the components are—quite literally—hardwired into its products. The domestic-only exhaustion rule permits patentees to extract a second royalty *after* the manufacturer has already incorporated those components, leaving the manufacturer with no option to substitute alternative parts. The ability to assert patent claims at that late juncture

increases the leverage of the patentee, enabling an oversized, second reward.

Fourth, domestic-only exhaustion harms innovation. Innovators create novel products by combining existing components in unique ways. See Gene M. Grossman & Edwin L.-C. Lai, *Parallel Imports and Price Controls*, 39 RAND J. Econ. 378, 380 (2008). But to do so, they must have confidence that, if they lawfully acquire components, the patentees who sold those components cannot later bring suit.

Fifth, international exhaustion benefits American workers. The Federal Circuit's domestic-only exhaustion rule creates a perverse incentive: a U.S. patentee can circumvent patent exhaustion if it chooses to make and sell its goods *outside* the United States. The Federal Circuit's rule thus incentivizes patentees to move production and sale of their goods abroad. International exhaustion, by contrast, treats first sales alike, regardless of where the sale is made. Unlike the approach taken by the Federal Circuit—and advanced by Lexmark—international exhaustion does not penalize manufacturers for making and selling goods within the United States. That is good policy for American consumers, workers, and industry.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
JOHN T. LEWIS
KARIANNE M. JONES*
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

* Admitted only in Minnesota; supervised by principals of the firm.

Counsel for Petitioner

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IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

RESPONDENT'S BRIEF

TIMOTHY C. MEECE
V. BRYAN MEDLOCK, JR.
JASON S. SHULL
AUDRA C. EIDEM HEINZE
BANNER & WITCOFF, LTD.
Ten South Wacker Drive
Chicago, IL 60606
(312) 463-5000

CONSTANTINE L. TRELA, JR.*
ROBERT N. HOCHMAN
SIDLEY AUSTIN LLP
One South Dearborn Street
Chicago, IL 60603
(312) 853-7000
ctrela@sidley.com

STEVEN B. LOY
STOLL KEENON OGDEN PLLC
300 W. Vine Street
Suite 2100
Lexington, KY 40507
(859) 231-3000

BENJAMIN BEATON
JOSHUA J. FOUGERE
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005
(202) 736-8000

Counsel for Respondent

February 16, 2017 * Counsel of Record

[Additional Counsel on Inside Cover]

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

D. Brent Lambert
Lexmark Int'l, Inc.
740 W. New Circle Road
Lexington, KY 40550
(859) 232-2000

QUESTIONS PRESENTED

Section 271(a) of the Patent Act provides that "whoever *without authority* makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a) (emphasis added). The questions presented are:

1. Whether the sale of a patented article subject to an express contractual agreement conveying only limited authority to use that article nonetheless automatically confers unlimited authority to sell, offer to sell, use, and import that article.

2. Whether every sale of a patented article outside the United States automatically confers unlimited authority to import, sell, offer to sell, and use that article in the United States.

RULE 29.6 STATEMENT

Respondent Lexmark International, Inc., is not publicly held. Lexmark's parent company and 100% owner is Apex Swiss Holdings SARL, which also is not publicly held. Apex Technology Co., Ltd., a publicly held company, is the indirect owner of 51% of Apex Swiss Holdings. No other publicly held company owns 10 percent or more of Lexmark's shares.

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STATUTORY PROVISIONS

35 U.S.C. § 154(a)(1) provides:

> Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

35 U.S.C. § 261 provides:

> Subject to the provisions of this title, patents shall have the attributes of personal property....
>
> Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

35 U.S.C. § 271(a) provides:

> Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

INTRODUCTION

The Patent Act specifies the rights of patentees: "to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. § 154(a). If others do any of these "without authority" from the patentee, they infringe the patent. § 271(a).

Patent "exhaustion" occurs when the patentee and buyer agree to an unrestricted sale of a patented item. Such sales grant buyers full "authority" to use, sell, offer to sell, and import that item, and they deliver patentees a full reward for the invention embodied in it. Nothing in the Patent Act, precedent, or sound policy, however, mandates a one-size-fits-all approach that requires patentees to convey and buyers to pay for rights neither wants to exchange. When buyers and sellers agree to a lower-priced sale that limits a buyer's "authority" and the patentee's concomitant reward, such sales do not automatically exhaust *all* the patentee's rights. Rights that the patentee withheld and the buyer chose not to acquire were never transferred.

That is true for both domestic and foreign sales. Domestically, patentees and buyers may agree to convey limited "authority" within the scope of a patentee's rights. 35 U.S.C. §§ 154(a), 271(a). Internationally, the sale of a product under foreign law does not even implicate—much less extinguish—a patentee's rights under U.S. law. The distinctly territorial Patent Act establishes a patentee's right to exclude others "throughout the United States," to convey or deny authority "within the United States," and to bar imports "into the United States." *Id.* Those U.S. rights do not block foreign use of an invention before

a sale, and the invention's foreign sale correspondingly does not extinguish any U.S. rights. If the parties agree, sales abroad *may* authorize use or sale in the United States, but nothing in the Patent Act suggests they *must* do so. Allowing patentees and buyers to exchange only the rights they want has facilitated healthy domestic and foreign trade in patented goods.

Yet Impression now proposes to change the law and impose an unalterable rule: every patentee-authorized sale of a patented article anywhere in the world, no matter what the agreed terms of sale, must transfer *all* U.S. patent rights over that article. Purchasers could not agree to acquire less, no matter how clearly and no matter what the economic and efficiency benefits—even if they intended to use the product only once, or only in a foreign country. Impression's position is based entirely on a patchwork of incomplete and out-of-context quotations that Impression has stitched into its preferred policy of worldwide automatic exhaustion. This Court's actual holdings, as Judge Taranto painstakingly explained for 10 judges below, do not support Impression's novel proposal.

Even if this Court were free to craft a federal common law of patents, Impression's mandatory-exhaustion proposal should be rejected. It would create illogical, market-distorting loopholes for licensees. It would excuse blatant and large-scale unauthorized sales, while ensnaring only the most innocent consumers as infringers. It would discourage sales in nations with weak patent systems by making those sales an automatic and mandatory grant of authority to import and sell patented products, including medicines, in the United States. And it would ask judges, rather than elected officials or trade negotiators, to

reshape an international economy that has operated in reliance on existing doctrine for decades.

STATEMENT

A. Lexmark's Sale Of Patented Products.

Lexmark is a Kentucky-based manufacturer that develops, patents, and sells printers, toner cartridges, and associated software. Pet. App. 9a. It competes with larger companies like Hewlett-Packard in the commercial-printing market. To make its prices and products attractive to sophisticated, high-volume customers, "Lexmark offers buyers a choice" between single-use and unlimited-use commercial-grade cartridges. *Id.* at 10a. The latter are full price, not subject to any restrictions, and may be disposed of or reused as buyers see fit. Alternatively, for roughly 20 percent less, customers who have no interest in reusing spent cartridges may buy "Return Program" cartridges. These patented cartridges are designed and licensed for a single use, with a microchip that disables printing once all toner is consumed. *Id.* at 10a-11a. As the parties stipulated, the reduced price of the Return Program cartridges reflects the value of the property interest and use rights conveyed to the purchaser under the express terms of Lexmark's conditional sale contract and single-use license. JA86; Pet. App. 10a-11a.

Lexmark customers can choose whether to buy single-use cartridges. Customers who do so agree with Lexmark, in an "express and enforceable contractual agreement," to comply with the single-use license. Pet. App. 10a-11a. Those customers also agree that they will return the patented cartridge only to

Lexmark for remanufacturing or recycling.[1] The single-use design of each cartridge is clearly displayed, in multiple languages, on the outside packaging of a Return Program cartridge and on the cartridge itself. It is "undisputed that all end users receive adequate notice of the restriction supporting the discounted price before they make their purchases." *Id.* at 11a.

Lexmark's foreign-sold cartridges are also explicitly limited: the microchips are "regionalized" according to the geographic areas in which Lexmark does business. A cartridge sold in Europe, for instance, will not function in a printer sold in North America. JA36, 48. Regionalization helps Lexmark defend against piracy and gray-market suppliers by making it harder for third parties to arbitrage products between different global markets. JA36-37, 48. In addition, many foreign cartridges are sold under the same Return Program terms of sale as domestic cartridges. Pet. App. 10a, 13a.

B. Impression's Infringement.

Despite the express limitations on these sales, licenses, and the products themselves, third-party resellers like Impression acquire, hack, and resell Lexmark cartridges. Impression made two types of unauthorized sales at issue here: single-use cartridges initially bought in the United States and cartridges bought abroad.

In both instances, resellers acquire spent cartridges, hack their microchips to override the single-use

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[1] In addition to meeting customer demand for lower-cost products tailored to their needs, the Return Program provides a reliable stream of cartridges for Lexmark's recycling program, ensures cartridges are properly recycled, and protects the quality and reputation of Lexmark's printer products. *E.g.*, JA45-47.

and/or regionalization settings, fill the cartridges with toner, affix their own labels, and sell the modified cartridges in the United States. Pet. App. 11a-12a. These steps exceed the scope of the rights Lexmark's customers acquired when they bought lower-priced, single-use cartridges or regionalized, foreign-sold cartridges. *Id.* at 11a, 13a.

Lexmark sued Impression (and other unauthorized resellers) for infringement. Every defendant, save Impression, admitted infringement and settled. Impression likewise admits that Lexmark's patents are valid and cover the cartridges it sells. Pet. App. 13a. Impression's only defense is that Lexmark "exhausted its U.S. patent rights in the cartridges by its initial sales of them." *Id.* According to Impression, it has the "authority" to hack and resell Lexmark's patented goods simply because Lexmark sold them to others, notwithstanding the limited authority Lexmark conveyed to buyers.

C. Decisions Below.

The district court rejected Impression's position that foreign sales exhausted Lexmark's U.S. patent rights, but adopted Impression's position that domestic sales did so despite the single-use agreement and license. Pet. App. 15a-17a. Impression stipulated to final judgment of infringement for its sales of foreign cartridges, and the parties cross-appealed. *Id.* at 14a-18a. After Impression agreed that its defenses were foreclosed by circuit precedent, the court of appeals took the case en banc. *Id.* at 8a, 18a-19a.

By stipulation, the parties narrowed this dispute significantly:

1. The lower price of single-use cartridges reflects the value of the limited property interest and use rights Lexmark conveyed. *Id.* at 11a.

2. The single-use agreements between Lexmark and its customers are valid and enforceable contracts. *Id.*

3. The "adequacy of th[e] notice is unchallenged," avoiding questions regarding "a downstream re-purchaser" that claimed "less than actual knowledge of such a restriction." *Id.* at 14a.

4. Impression does not contend the single-use restriction "exceeds the scope of the [patent]" or violated antitrust laws. *Id.*[2]

5. Impression "did not preserve an implied-license defense." *Id.* at 18a.

The court of appeals ruled for Lexmark on both the domestic and foreign questions. Judge Taranto's domestic-sales ruling for 10 judges reaffirmed "that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser, does not by that sale give the buyer, or downstream buyers, the resale/reuse authority that has been expressly denied." Pet. App. 8a. The Patent Act's text, this Court's holdings, widespread reliance interests, and the illogical disparity between licensee and patentee sales all precluded Impression's proposed move to mandatory automatic exhaustion.

As to foreign sales, the court unanimously held that sales outside the United States do not automatically terminate U.S. patent rights. It rejected Impression's position that *Kirtsaeng*'s application of the Copyright Act's statutory first-sale provision to foreign-*made* works silently determined the Patent Act's effect on

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[2] *Lexmark Int'l, Inc.* v. *Static Control Components, Inc.*, 134 S. Ct. 1377 (2014), involved Lanham Act standing and has no relevance here. *Contra* Pet. Br. 3-4.

foreign-*sold* articles. The territorial nature of the Patent Act and the Paris Convention's international patent regime, rather, meant that the sale of a patented product in another jurisdiction can, but does not necessarily, grant authority under U.S. patent law. Pet. App. 8a-9a. In that regard, a "buyer may still rely on a foreign sale as a defense to infringement" if a license authorized U.S. use or sale—a defense Impression did not raise. *Id.* at 9a, 18a.

Two dissenting judges would have broadened the circumstances under which domestic and foreign sales terminate U.S. patent rights. The dissent contended that patentees, unlike licensees, necessarily lose all patent rights when they sell a patented article in the United States, regardless of any express agreement. Pet. App. 105a-106a. For foreign sales, the dissent rejected Impression's automatic-exhaustion position, but would have held that a foreign transaction must have "explicitly reserved the United States patent rights" to avoid exhaustion. *Id.*

SUMMARY OF ARGUMENT

I. The Patent Act defines the parameters of the exhaustion doctrine. Patentees receive a particular set of distinct rights to "exclude others" from making, selling, offering to sell, using, or importing their invention, and an infringer is anyone who does any of those things "without authority." 35 U.S.C. §§ 154(a), 271(a). An infringement claim therefore asserts that the defendant lacked "authority" to act. The affirmative defense of exhaustion maintains that a prior sale conferred the requisite "authority." And because the rights to exclude and infringement remedy go hand-in-hand, a patentee's exclusive rights (§ 154) limit the scope of the "authority" (§ 271) it can withhold or convey.

Sales can (and often do) convey full authority over patented articles, and the proceeds of such sales fully reward patentees for—and thus "exhaust"—their rights over those articles. Alternatively, as this Court held long ago, sales can convey less than full authority, in which case the patentee's (smaller) reward accounts only for the particular rights conveyed with respect to that item. *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544, 550 (1873). In all events, however, the Patent Act does not allow patentees to leverage their patents to secure rights that exceed the statutory grant. *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 304 U.S. 175, 181 (1938). That is exhaustion in a nutshell.

Impression is accordingly liable for infringement. All parties agree that the rights at issue were "within the scope of the Patent Act's express grant of exclusive rights over [Lexmark's] patented articles." Pet. App. 14a. And all agree that the lower price of Return Program cartridges "reflects the value of the [more limited] property rights and interests conveyed." JA86; JA92. Lexmark did not convey to its customers "authority" that its customers chose not to acquire.

Impression reads this Court's decisions to create an atextual rule that sales by patentees (but not licensees) must always convey full authority. But Impression's tortured explanations of this Court's holdings make clear that this senseless schism does not exist. Nor would Impression's revisionism serve any larger purpose. Impression's sky-would-fall predictions are belied by the courts' long-ago rejection of automatic exhaustion, which has not inhibited trade or commerce. Given the disruption Impression's approach would create for specific reliance interests and commerce generally, there is "no reason to depart from

the application of § 271 ... derive[d] from the statute and precedent." Pet. App. 60a.

II. Sales of U.S.-patented articles under foreign law do not implicate U.S. patent rights at all—much less automatically extinguish them.

Unlike an unrestricted domestic sale, the foreign sale of a U.S.-patented product does not reward the patentee for lifting any U.S. legal restrictions, because the U.S. patent never imposed any restrictions on the product's foreign sale or use to begin with. The Patent Act, and U.S. patents granted under it, have no extraterritorial force. *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972).

Rather, the Act speaks in expressly territorial terms: it confers rights "throughout the United States," bars importation "into the United States," and establishes liability for infringement "within the United States." 35 U.S.C. §§ 154(a)(1), 271(a). The absence of corresponding rights or limitations in foreign jurisdictions reflects obligations, spanning from the 1883 Paris Convention to recent U.S. trade agreements, under which the legal force of a patent issued in one country is confined within that country's borders. Nothing in the Act departs from this distinctly territorial regime to automatically confer U.S. rights based on a sale under foreign law.

Yet that is the novel policy Impression proposes here: any authorized foreign sale would always exhaust all U.S. patent rights. Even if the patentee and buyer expressly agreed to transfer only foreign rights, and even if the U.S. patentee valued U.S. rights much more highly than the foreign buyer, Impression would force the patentee to convey (and the buyer to pay for) U.S. patent authority. The only support Impression marshals for this extreme view is an 1885

district court ruling, a 2006 footnote about substantial embodiment, and a 2012 interpretation of the *Copyright* Act.

Those decisions never confronted the statutory limits or precedent at issue here. This Court's decision in *Boesch* v. *Graff*, 133 U.S. 697 (1890), and a long line of decisions applying it, recognize the separate foreign and U.S. rights at issue when a party like Impression attempts to import and sell a patented article based only on a sale abroad. Those precedents, moreover, also recognize the patentee's ability—repeatedly obscured by Impression, but explicitly recognized by the court below—to expressly or impliedly license U.S. sale or use through a foreign transaction. Nor can the economic and foreign-policy consequences of automatic worldwide exhaustion—which are significant and contested—justify a decision by this Court that would remove the question from the political process.

The United States agrees with this understanding of the statute and precedent. Yet it proposes a compromise position that foreign sales would presumptively transfer U.S. rights. That policy preference, however, finds no support in the statutory text, this Court's precedent, or the logic of the Government's own acknowledgement of the fundamentally territorial nature of the international patent regime.

ARGUMENT

I. A PATENTEE SALE DOES NOT NECESSARILY CONFER UNLIMITED "AUTHORITY" TO SELL OR USE A PATENTED ARTICLE.

The Patent Act and this Court's exhaustion precedent allow patentees and their counterparties to allo-

cate the separate and divisible rights Congress granted to inventors. Nothing requires that every sale of a patented article convey full authority under the patent. Rather, the exhaustion doctrine allows patentees and buyers to tailor a sale to convey only the authority the buyer wants to pay for. All agree this is true when patentees license their rights to others. No reason supports a different result when patentees themselves make and sell their inventions.

A. The Patent Act Governs The Exhaustion Doctrine.

The Patent Act "defines the framework" within which the exhaustion doctrine operates. Pet. App. 20a.

Section 154(a), which Impression never cites, delineates a patentee's "right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. § 154(a)(1). The disjunctive text ("or") specifies that the rights are separate and distinct. See *Loughrin* v. *United States*, 134 S. Ct. 2384, 2390 (2014). Section 261 subsequently provides that "patents, *or any interest therein*, shall be assignable" and may be conveyed "to the whole or any specified part of the United States." 35 U.S.C. § 261 (emphasis added). The entire bundle of patent rights *or* any narrower "interest therein" can thus be divided and transferred. See *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873) (rights to make, sell, and use can be granted separately).

Section 271(a), which Impression does not address until page 36 of its brief, correspondingly provides that a patentee may enforce its rights to exclude through an infringement action: anyone who "makes, uses, offers to sell, or sells any patented invention,

within the United States or imports into the United States any patented invention" during the patent term "infringes the patent" if he or she acts "without authority." See also, *e.g.*, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 514 (1917) (inventor's rights are those "he may assert against all the world through an infringement proceeding").

The patent exhaustion doctrine exists within these statutory confines. It is an affirmative defense to infringement through which a defendant claims to have acted with "authority" from the patentee. *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1765 (2013). Indeed, Congress and the courts have "consistently understood" infringement to mean "committing the identified acts without authority (synonymously, without consent or permission)." Pet. App. 21a. See Patent Act of 1790, ch. 7, § 4, 1 Stat. 109, 111 (liability involved proceeding "without the consent of the patentee"); W. Robinson, *The Law of Patents* § 890 (1890) (infringement is "the invasion of this exclusive right ... by any person not duly authorized to do so by the patentee"). Because an infringement claim enforces § 154's rights to exclude, the "authority" that a patentee may withhold or convey derives from and is cabined by the statutorily-conferred rights.

This Court has long addressed questions of "patent exhaustion" in just this way. An infringer is anyone "who makes and uses or vends [a patented] machine to others to be used *without [the patentee's] authority or license.*" *Seymour* v. *Osborne*, 78 U.S. (11 Wall.) 516, 555 (1871) (emphasis added). And § 154 sets the outer limits of conveyable authority. In *Motion Picture Patents*, for example, the Court repeatedly made clear that the task was statutory construction—whether § 154's "use" rights were "limited to the invention described in the claims of the patent," or

reached the use of "materials or supplies not described in the patent." 243 U.S. at 510-18. Likewise, in *Bauer & Cie* v. *O'Donnell*, the Court construed the extent of "the right to vend secured in the patent statute" to determine "the intention of Congress." 229 U.S. 1, 17 (1913) (emphasis omitted).

These parameters of the exhaustion doctrine coalesce around an ordinary construction of the statute's plain terms. Because a patentee's rights from the outset are delimited in § 154, the patentee cannot withhold "authority" that it *never* had, like authority to set resale prices, *infra* § I.B.3. But that does not mean that, "counter-textual[ly]," a patentee automatically conveys all authority it *does* have with every sale and is left with no rights to exclude *in any respect*. The patentee's reward is tied to the "*particular* article" sold and the authority that accompanies that article. *Bowman*, 133 S. Ct. at 1766 (emphasis added).

B. This Court's Precedent And History Confirm The Patent Act's Flexible Exhaustion Regime.

This sensible understanding of the statute is reflected in the rule that emerges from this Court's exhaustion precedents: patentees can transfer some or all of their authority through a valid sale, but cannot expand their rights beyond the grant Congress provided. An unrestricted sale matches the "parties' likely expectations" by granting the buyer full "authority" over the thing purchased, including authority to use or resell. Pet. App. 40a. By releasing all of its statutorily-conferred exclusivity rights, the patentee conveys all "authority" and necessarily "receive[s] his reward" for the "particular [patented] article." *Bowman*, 133 S. Ct. at 1766. If, by contrast, a patentee denies "authority" through "clearly-communicated, otherwise-

lawful restrictions," that "denial of authority leaves a buyer without the denied authority." Pet. App. 40a-41a. "Unless granting 'authority' is to be a legal fiction, a patentee does not grant authority by denying it." *Id.* at 41a.

1. Sales Agreements Can Transfer Some But Not All Authority Over Patented Articles.

A patentee's ability to tailor the transfer or release of patent rights has deep roots. "[T]he rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts." *Bement* v. *Nat'l Harrow Co.*, 186 U.S. 70, 91 (1902); see also 1 R. Milgram, *Milgrim on Licensing* § 2.31 (2016) ("not every purchase provides a free ticket to future use").

Wilson v. *Rousseau*, 45 U.S. (4 How.) 646 (1846), is an early decision reflecting the principle that ownership of a patented article does not necessarily include full authority under the patent. Congress had granted patentees the possibility of a seven-year renewal term, and provided that "the benefit of such renewal shall extend to assignees and grantees of the right to use the thing patented, to the extent of their respective interests therein." *Id.* at 677. "[T]hose who were in the use of the patented article at the time of the renewal" retained that right, "which[,] without the clause, would have been vested again exclusively in the patentee." *Id.* at 682. Focused on the "common use" of "patented articles or machines throughout the country, purchased for practical use in the business affairs of life," Congress granted this *additional* right. Unlimited authority did not automatically follow from mere ownership. *Id.* at 682-84. Rather, Congress

qualified the "use" right and treated it as distinct from "the exclusive right to ... make and vend," which remained the patentee's. *Id.* at 682.

This Court later held in *Mitchell* v. *Hawley* that a licensee could convey to a buyer no rights beyond those the licensee received from the patentee. 83 U.S. at 550; Pet. App. 39a-40a. The patent owner, Taylor, licensed Bayley to make and use, and to license others to use, patented machines in New Hampshire and Massachusetts, expressly limited to the original patent term. 83 U.S. at 548-50. Bayley made and sold four machines to Mitchell for use in Massachusetts. Taylor then got a seven-year extension, assigned all rights to Hawley, and Hawley sued Mitchell for using the four machines beyond the licensed original patent term. *Id.*

Mitchell was liable for infringement. The licensee (Bayley) was unquestionably authorized to sell the machines. But that sale could not convey to Mitchell unfettered authority to use them beyond the licensed term. *Id.* at 549-50. Rather, "the instrument of conveyance from the patentee" to the licensee expressly stated the temporal restriction. The licensee, therefore, could not "convey [to the purchaser] any better title than he own[ed]." *Id.* at 550. Although *Mitchell* addressed exhaustion in the context of a licensee-sale, the principles it applied were not particular to licensee sales. *Id.* at 547 (same principles apply where patentee "has himself constructed a machine and sold it ... or authorized another to construct, sell and deliver it"). This Court subsequently invoked *Mitchell*'s "formulations in [*Keeler*, *infra*] a patentee-sale case." Pet. App. 43a.

In 1938, *General Talking Pictures* relied on *Mitchell* to "squarely h[o]ld ... that a patentee could preserve its infringement rights against unauthorized uses by

restricting manufacturing licensees' authority to sell for such uses." Pet. App. 43a. The field-of-use limits at issue licensed another company to make and sell patented amplifiers for private use only, but the licensee sold the amplifiers for commercial use. The purchaser had never obtained the patentee's permission to engage in non-commercial use. Lacking "authority" under the patent, *Gen. Talking Pictures*, 304 U.S. at 181, the purchaser was an infringer. Pet. App. 43a-44a.

"[R]estrictive license[s]," the Court reiterated on rehearing, were "clear[ly]" legal. *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 305 U.S. 124, 127 (1938). A patentee thus "may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.'" *Id.* "Any use beyond the valid terms of a license is, of course, an infringement." *Id.* at 126. The patentee's license limited the authority conveyed to the licensee, and the licensee's customer was "liable because it has used the invention without license to do so." *Id.* at 127.

Just like this Court's precedents, moreover, the common law has also long recognized that agreements to transfer personal property can carry enforceable restrictions. See, *e.g.*, Pet. App. 57a-58a; *infra* at 48 n.9.

All of these authorities reflect the classic hornbook metaphor: if the patentee transfers one of three sticks to a customer, that customer cannot transform its one stick into three.

2. Sales Agreements May Convey Complete Authority Over Patented Articles.

Consistent with these decisions and the Patent Act, this Court has also long recognized that domestic sales or transfers without valid restrictions convey complete "authority" to sell or use a patented article.

Bloomer v. *McQuewan* and *Mitchell* spelled out this common-sense understanding more than 140 years ago. In *McQuewan*, the purchaser of two patented machines did not infringe by using the machines during the extended term because the "right to construct and use the[] machines, had been purchased and paid for *without any limitation* as to the time for which they were to be used." 55 U.S. (14 How.) 539, 553 (1853) (emphasis added). That "unrestricted right to use did not end when the earlier patent term ended, because the right to use did not come from the patent statute, which grants only rights to exclude, not rights to practice." Pet. App. 35a.

Mitchell confirmed this basic principle while enforcing a patentee's more limited conveyance. Sales "may be made by the patentee *with or without conditions*." 83 U.S. at 548 (emphasis added). But where the sale is "absolute, and without any conditions," exhaustion follows: "the purchaser may continue to use the implement or machine purchased until it is worn out, or he may repair it or improve upon it as he pleases, in same manner as if dealing with property of another kind." *Id.*; see also *id.* at 547 (discussing sales "without any conditions").

Time and again since, this Court has reiterated that an unrestricted transfer exhausts a patentee's authority over an article. In *Adams* v. *Burke*, for instance, after a sale of patented items "without condi-

tion or restriction," the purchaser's exhaustion defense barred infringement liability. 84 U.S. at 455; see also, *e.g.*, *Wilbur-Ellis Co.* v. *Kuther*, 377 U.S. 422, 425 (1964) (citing *Adams* and *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942), and distinguishing sales subject to a limited-use license from "sales ... outright, without restriction"). Just as a patentee can grant an express license transferring some but not all authority to use patented articles, an unrestricted sale "grant[s] to the purchaser an 'implied license to use'" it. *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964).

The Court's recent decision in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, likewise upheld an exhaustion defense where the license contract did not limit the authority transferred. The LGE license authorized Intel to sell products embodying the LGE patents with no condition limiting Intel's authority to sell only to particular customers or only for particular uses. 553 U.S. 617, 636-37 (2008). Instead, Intel's authority to sell was unrestricted and subject to "[n]o conditions." *Id.* at 637. In fact, the agreement expressly stated that "'nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply.'" *Id.* at 623. Because a "single, unconditional sale" in the United States exhausts a patentee's U.S. rights, the result in 2008 was the same as it was 150 years earlier: "patent exhaustion prevent[ed] LGE from further asserting its patent rights." *Id.* at 626, 637.

3. Sales Agreements May Not Expand Patentees' Statutorily-Conferred Rights.

The same statutory foundation that empowers a patentee to tailor the authority it conveys to buyers of patented products, 35 U.S.C. § 154, also defines the

boundaries of the patentee's authority over patented products it sells, *Aro Mfg.*, 377 U.S. at 497. Although a patentee may convey all, some, or none of the "authority" over its invention, the patentee cannot go further and "extend the scope of the monopoly beyond that contemplated by the patent statute." *Gen. Talking Pictures*, 304 U.S. at 181. Put another way, "[t]he owner of a patent cannot extend his statutory grant by contract or agreement. A patent affords no immunity for a monopoly not fairly or plainly within the grant." *United States* v. *Masonite Corp.*, 316 U.S. 265, 277 (1942). Such attempted rights-expanding restrictions are without effect, and such sales accordingly exhaust patent rights.

In particular, the patent grant's right to exclude "use" of the invention does not extend to unpatented supplies or tie-ins. This Court briefly allowed tie-ins in *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912). But it soon held that the "language of the statute ... is not concerned with and has nothing to do with the materials with which or on which the [patented] machine operates." *Motion Picture Patents*, 243 U.S. at 512. The Court construed the Act to distinguish between "the exclusive right to use the machine" and "the right to use it exclusively with prescribed materials." *Id.* That the infirmity in *Henry* was an unlawful tie-in is clear from *Motion Picture Patents* and cases that followed. See, *e.g.*, *IBM Corp.* v. *United States*, 298 U.S. 131, 137-38 (1936) (*Henry* "held that a tying clause could lawfully be extended to unpatented supplies for a leased patented machine" and was the impetus behind the ban on tying arrangements in § 3 of the Clayton Act); *Ill. Tool Works Inc.* v. *Indep. Ink, Inc.*, 547 U.S. 28, 33-34 (2006) (same).

Likewise, the patent grant's right to exclude others from "sell[ing]" the invention does not include the

right to fix resale prices. *Bauer* held that "it was the intention of Congress to secure an exclusive right to sell, [but] there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold." 229 U.S. at 17; see also *Bos. Store of Chi.* v. *Am. Graphophone Co.*, 246 U.S. 8, 25 (1918) (price-fixing condition was "not within the monopoly conferred by the patent law"). A patentee can of course sell its product at whatever price it chooses, but not because of the patent grant; setting a price is a privilege that belongs to any seller. So if the patentee gives up the exclusive right to sell the invention, and a third party sells with the patentee's "authority," any effort by the patentee to control a downstream sales price falls beyond the scope of the patent grant.

This Court recognized as much in a pair of cases decided on the same day—*Masonite* and *Univis*. *Univis* held that, if a patentee "were permitted to control the price at which [a product] could be sold by others he would extend his monopoly ..., and he would extend it beyond the fair meaning of the patent statutes and the construction which has hitherto been given to them." 316 U.S. at 252. And in *Masonite*, the "price-fixing combination ... [wa]s illegal *per se* under the Sherman Act," and patent law rights did not "save[] the arrangement." 316 U.S. at 274-81.

Nothing in these precedents calls into question the right of patentees, purchasers, and licensees to exchange or withhold only some of the rights granted in § 154. To the contrary, these precedents confirm that a patentee's rights are limited to those enumerated in the Patent Act. Any effort to restrict the authority conveyed to purchasers or licensees is valid only if it is consistent with the patentee's statutory right to exclude others from engaging in that conduct.

The foregoing principles decide this case for Lexmark. "Impression has not contended that the particular restriction at issue ... exceeds the scope of the Patent Act's express grant of exclusive rights over patented articles." Pet. App. 14a. Nor does Impression dispute that Lexmark has withheld authority to sell or to use Return Program cartridges more than once through clearly-communicated restrictions. Impression admits that the reward Lexmark received for those cartridges "reflects the value of the property rights and interests conveyed by Lexmark under the express conditional sale contract between the parties and the conditional single-use license conferred by Lexmark." JA86; JA92. Thus, Lexmark's reduced "reward" for the "particular article" sold—single-use Return Program cartridges—"reflect[s] the value" of the more limited conveyance of authority over those cartridges. *Bowman*, 133 S. Ct. at 1766. Because Lexmark's customers never acquired authority for subsequent uses or sales of the patented cartridges, the Patent Act gives Lexmark the right to enforce those retained patent rights against a party who, like Impression, "makes, uses, offers to sell, or sells" the cartridges "without authority." 35 U.S.C. § 271(a).

C. Additional Considerations Undermine Mandatory Exhaustion.

The exhaustion doctrine has persisted so long because of its flexibility and sensibility—particularly compared to Impression's alternative view. Pet. App. 59a-63a. There are thus compelling reasons, in addition to the controlling statutory text and precedent, to reaffirm it.

First, Impression's rule would erect an artificial and illogical division between licensing patentees and manufacturing patentees. It is undisputed that licensee-manufacturers must adhere to limitations pa-

tentees impose—for example, by selling patented articles subject to geographical limitations (*e.g.*, 35 U.S.C. § 261), temporal limitations (*e.g.*, *Mitchell*), or usage restrictions (*e.g.*, *General Talking Pictures*). It is also clear that, pursuant to those same authorities, the non-practicing patentee may sue for infringement when the limited authority it granted is exceeded. A patentee who makes and sells articles itself should have no less ability to sell articles subject to geographic, temporal, or use restrictions and to sue for infringement when that limited authority is exceeded. "[T]here is no sound reason[] and no Supreme Court precedent[] requiring a distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a; see also *infra* § I.D.2.

Second, permitting patentees to control their rights facilitates consumer choice. It allows customers to acquire only the rights (here, single- or unlimited-use cartridges) that best suit their needs. As the Government's own Antitrust Guidelines recently reiterated, moreover, "[f]ield-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible." Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.3 (Jan. 12, 2017).

Third, permitting tailored exchanges, as this Court's precedents do, implements the balance inherent in the constitutional directive to "Promote the Progress of Science and useful Arts." U.S. Const. art. I, § 8, cl. 8. The Patent Act, too, reflects "the policy of government to encourage genius" by "award-

ing ... an enlarged interest and right of property in the invention itself." *Wilson*, 45 U.S. at 674-75. "[T]he essence of a patent grant is the right to exclude others from profiting by the patented invention," *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 (1980), and the corresponding right to receive the reward serves as the incentive for innovation.

Finally, patentees and those who deal with them rely on this longstanding rule, which undergirds licensing agreements, pro-consumer pricing structures, and investment-backed expectations in innovation and distribution. Where precedent implicates reliance on "property (patents) and contracts (licensing agreements)," the Court should be wary of upsetting settled expectations. *Kimble* v. *Marvel Entm't, LLC*, 135 S. Ct. 2401, 2410 (2015). *Amici* have clearly shown the importance of existing rules. *E.g.*, Licensing Execs. Soc'y Br. 5-14; AIPLA Br. 12-14.

D. Impression's Automatic-Exhaustion Policy Is Legally Unsound.

Impression contends that every patentee-sale of a patented article automatically and always extinguishes all patent rights over that article. It arrives at this rigid rule only after contorting this Court's decisions, disregarding the Patent Act, and endorsing nonsensical outcomes.

1. There Is No Basis For Ignoring The Patent Act.

Impression contends that the court of appeals should not have "grounded" the exhaustion doctrine in the Patent Act. Pet. Br. 36-38; see also U.S. Br. 14-15. This is wrong.

Impression suggests that supposedly judge-made exhaustion principles operate as an extratextual "lim-

it" on the Act. Pet. Br. 36-37; see also IP Profs.' & AAI Br. 9 ("judicial common law"). Although some of this Court's decisions have declined to expand patentees' statutorily-conferred patent rights, they have not imposed a "limit" on the rights that have been granted by statute. *Supra* § I.A. *Aro Manufacturing*, on which Impression relies, is clear: the cases "delimit[]" (not limit) "the scope of the patent grant," including that it does not encompass unlawful tie-ins. 377 U.S. at 497. That is irreconcilable with a sweeping mandate for a statute-free approach to exhaustion.

Both Impression and the Government urge the Court to ignore § 271(a)'s "without authority" language on the basis that it simply codified pre-1952 exhaustion precedent silently absorbed into the 1952 Patent Act. Pet. Br. 36-38; U.S. Br. 14-15. The court of appeals understood the statutory history but also recognized that both pre- and post-1952 infringement decisions turned on the conveyance of patentee "authority." See Pet. App. 20a-25a; *id.* at 21a ("Section 271(a)'s language embodies an understanding of 'infringement' that was long recognized even before Congress enacted § 271 as part of the 1952 recodification of the patent laws."); U.S. Br. 14-15 ("presence or absence of patentee consent was crucial to the determination whether infringement had occurred"). Both the statutory text and precedent indisputably require a patentee's "authority" or "consent," and this history does not suggest that a patentee provides "consent" or "authority" by withholding it.

2. Impression's View Of The Precedent Is Wrong.

The court of appeals, like this Court, cautioned that "[c]ontext is particularly important" in analyzing what earlier decisions do and do not hold. Pet. App. 39a. It then painstakingly explained why Impression

misreads this Court's precedents. *Id.* at 27a-56a. Impression's analysis largely ignores the court of appeals' reasoning and the context of this Court's decisions.

a. Impression, the Government, and some *amici* claim that this Court mandated automatic exhaustion in the mid-1800s. That position stitches together quotations from several cases "taken out of context." Pet. App. 27a-56a.

Univis. First is *Univis*, a Sherman Act suit in which the Government sought to enjoin a sales and patent licensing system centered on resale price maintenance. Impression reads *Univis* expansively to "h[o]ld that after a patentee sells a patented article, the patentee may not subsequently exercise patent-based control." Pet. Br. 16-20; see also U.S. Br. 11. In reality, "the most the Court ruled ... was that a vertical price-control restriction was ineffective to preserve patent rights after sales of articles embodying the patents." Pet. App. 37a, 54a-56a. Citing cases like *Bauer* and *Boston Store*, and patent misuse precedent later limited by Congress, this Court reaffirmed that control over resale prices is not a right within the scope of the patent grant. See, *e.g.*, 316 U.S. at 252 ("control[ling] the price ... would extend his monopoly"); *id.* ("price fixing features of appellees' licensing system ... are not within the protection of the patent law"). Indeed, underscoring that price-fixing was the issue, the Court separately addressed non-price features of the licensing system and held that, even "assum[ing] that such restrictions might [have been] valid" and "used for lawful purposes," they were too "interwoven with and identified with the price restrictions" to survive. *Id.* at 254.

Impression contends that the "court of appeals rested its contrary conclusion on its view that *Univis*

excludes from enforceability under the Patent Act only a post-sale restriction that *independently* violates the antitrust laws." Pet. Br. 18-19. The court of appeals did no such thing, remarking instead that an analysis of "the substance of antitrust law[] is immaterial." Pet. App. 54a. The court of appeals noted the broad statements on which Impression focuses, *id.* at 29a, 37a, 54a-56a & n.11, but properly understood *Univis* to distinguish between a patentee's statutory right to exclude others from selling and the nonexistent right to fix resale prices. *Supra* § I.B.3.

That this Court in *Univis* addressed patent questions before it considered antitrust questions is immaterial. Pet. Br. 19-20. In *Masonite*, decided the same day, this Court considered the antitrust issue first, recognizing that the price-fixing combination was *per se* illegal under the Sherman Act unless excused by "Masonite's patents and ... agency agreements." Only then did the Court ask whether the patents or agency arrangement changed the outcome. 316 U.S. at 274-83. The analytical sequence is irrelevant; what matters is whether the patentee purports to convey or withhold authority within the scope of the patent grant.[3]

Finally, Impression suggests that the court of appeals mischaracterized parts of *Univis* as *dicta*, noting that *Quanta* later said that "*Univis* governs this case." Pet. Br. 19-20. Impression's overreaching underscores the court of appeals' proper observation that "broad effect" should not be assigned to language

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[3] The Court applied the same analysis in *Straus* v. *Victor Talking Machine Co.*, also explaining that the issue was whether the conditions were a means of retaining the patentee's rights or "a device unlawfully resorted to in an effort to profitably extend the scope of its patent." 243 U.S. 490, 497-98 (1917).

that must be read in context. Pet. App. 54a-56a & n.11. *Univis* governed *Quanta* on the question of substantial embodiment, which both cases confronted, not on mandatory exhaustion, which neither did. 553 U.S. at 631-35; see also Pet. App. 37a. *Univis* does not stretch nearly as far as Impression would like.

Quanta. Next, Impression (but not the Government) contends that *Quanta* is independently dispositive. Pet. Br. 20-25. But *Quanta* involved no restrictive condition, and was thus "at least two steps removed from the present case": "[t]here were no patentee sales, and there were no restrictions on the sales made by the licensee." Pet. App. 30a-37a. *Quanta* cited with approval "precedent such as *General Talking Pictures* that make clear that patentees are able to preserve their patent rights through restrictions on the sales they authorize[] licensees to make." *Id.* at 31a-32a. It then carefully analyzed the contractual agreements between LGE and Intel—a pointless exercise if no conditions could be imposed. *Id.* The Court concluded "that there simply were no ... restrictions on LGE's grant to Intel of the authority to sell." *Id.* *Quanta* did not "reject[] the 'conditional sale' doctrine," Pet. Br. 23, because no conditional sales were at issue.[4]

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[4] Impression also argues that the court of appeals' holding would, contrary to *Quanta*, allow patentees to create an "end-run around exhaustion." Pet. Br. 9, 13-14. But that circular argument presumes the answer Impression wants—*i.e.*, that "exhaustion" categorically does not allow limited sales. But *Quanta* merely understood that exempting method patents from the exhaustion doctrine would create an "end-run" no matter what: even after an unrestricted sale, as in *Quanta*, the patentee could simply sue for infringement under a method patent. 553 U.S. at 629-30.

Henry. To Impression and the Government, *Henry*'s overruling in *Motion Picture Patents* represented a sweeping repudiation of all restrictions on sales of patented goods. Pet. Br. 28-32; U.S. Br. 11-12. But subsequent decisions confirm that the problem in *Henry* was the tying restriction, and *Motion Picture Patents* merely decided that § 154 did not sweep unpatented products under the patent umbrella. *Supra* § I.B.3; Pet. App. 36a-37a, 53a-54a.[5]

Keeler. Impression and the Government also make much of a passage in *Keeler* v. *Standard Folding Bed Co.*, stating that "[w]hether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us" and that it is "obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws." 157 U.S. 659, 666 (1895). They take that passage to mean that a patentee-seller's only remedy sounds in contract rather than patent infringement. Pet. Br. 27-28; U.S. Br. 2, 16.

But that is not—and could not be—what the passage means. "[T]he word 'inherent' naturally ties the language to the modest point ... that actually decided *Keeler*: with no contract restriction as part of the sale, an implied one cannot be found in patent law itself." Pet. App. 51a-52a; see also *Adams*, 84 U.S. at 457 (no unstated restriction "to be implied"); *Hobbie* v. *Jennison*, 149 U.S. 355, 363 (1893) (restriction will

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[5] The Government's related contention that this Court's tying and price-fixing decisions "did not depend on the particular *type* of post-sale restrictions at issue, but instead turned on the nature and extent of the exclusive rights conferred by U.S. patent law," U.S. Br. 15-16, is a *non sequitur*. Those decisions held that "U.S. patent law" did not encompass *these particular restrictions*, nothing more. *Supra* § I.B.3.

not be implied, but patentee can "bind every licensee or assignee, if he gives him the right to sell articles made under the patent, by imposing conditions which will prevent any other licensee or assignee from being interfered with"). And, as the court of appeals also explained, decisions like *Mitchell* and *General Talking Pictures* make clear that license or contract violations can in fact result in patent-law remedies. Pet. App. 51a-52a; *supra* § I.B.1. Put simply, Impression and the Government both concede that *license* contract restrictions, when violated, can be enforced as a matter of patent law. There is no reason to believe *Keeler* set up a different rule for sales contract restrictions.[6]

b. From these cases, Impression and the Government purport to extract an exhaustion rule keyed to the Court's use of the term "authorized sale." That term has a special meaning in their view: "any sale of a patented article by a patentee, even when the rights granted are expressly restricted, is automatically an 'authorized sale,' causing the patentee to lose all § 271 rights in the item sold." Pet. App. 33a. As the court of appeals rightly observed, this is question-begging, because the phrase itself does not answer the fundamental question of *what* a particular sale has authorized. *Id.* at 38a.

Moreover, nothing in the phrase "authorized sale" distinguishes sales contracts between the patentee and a buyer from license contracts between the patentee and a licensee. Both reflect compensation to the patentee for relinquishing some or all of the rights granted by § 154. Yet Impression and the Gov-

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[6] Indeed, as this Court noted in *Bowman*, and as is true in this case, an express license can be a part of or accompany a sales transaction. *Bowman*, 133 S. Ct. at 1764, 1767 n.3.

ernment believe the transfer of patent rights via sales contract must relinquish all rights, while the transfer of patent rights via license contract can withhold some portion of those rights. As noted above, there is no practical reason to distinguish between the two. *Supra* § I.C. And certainly there is no way to extract such a distinction from the phrase "authorized sale." Pet. App. 37a-38a.

c. Impression and its *amici* offer no tenable understanding of the decisions that do not fit their position—most notably, *Mitchell* and *General Talking Pictures*.

Impression and the Government argue that *Mitchell*'s description of "conditions" on the sale of a patented article referred only to sales in which title did not pass until performance of a condition precedent. Pet. Br. 32-35; U.S. Br. 16-17. But that term was not so limited in *Mitchell*, where the licensee had title to what it made yet lacked unrestricted use rights. 83 U.S. at 549. Nor has this Court or Congress ever understood the term "conditions" so restrictively. See, *e.g.*, Pet. App. 42a n.9; *Quanta*, 553 U.S. at 637 ("[n]o conditions limited Intel's authority to sell"); see also 35 U.S.C. § 271(d)(5) (sale may be "conditioned" on purchase of another product).

Nor is there any merit to Impression's assertion that *Mitchell* "simply reaffirms" that "transfer of title of the patented good has always been the linchpin of exhaustion." Pet. Br. 35 (emphasis omitted). The passing of title to a physical product is decidedly *not* the "linchpin of exhaustion," because purchasers of patented products who held title *to the product* have been held liable for infringement when the patentee retained some or all of its statutory rights. See, *e.g.*, *Gen. Talking Pictures*, 304 U.S. at 186 (Black, J., dissenting) (infringing purchaser had title to amplifiers).

That is also clear from, for example, *Mitchell*'s statement about "the owner of the machine, whether he built it or purchased it, *if* he has also acquired the right to use it during the lifetime of the patent." 83 U.S. at 547 (emphasis added); see also *Bloomer* v. *Millinger*, 68 U.S. (1 Wall.) 340, 350 (1864) (same).

Impression's and the Government's attempt to discount *General Talking Pictures* is equally implausible. That decision makes clear that a patentee may authorize a licensee to make and sell patented articles in certain ways, while otherwise retaining the right to sue for infringement. *Supra* § I.B.1. There is no principled basis for distinguishing this Court's clear holding on the ground that a patentee may not achieve in one step (by making and selling itself) what it can achieve in two (by licensing limited patent rights to a third party that may sell subject to those limitations). Pet. App. 26a.

Impression and the Government argue that *General Talking Pictures* stands for a perverse rule: a patentee who licenses others to make and sell limited-use patented articles can sue buyers for patent infringement, but *only if* the licensee sells those articles in contravention of its limited authority. Pet. Br. 38-41; U.S. Br. 17-22. In other words, an innocent purchaser who buys from a misbehaving limited licensee would be an infringer. A purchaser who buys from a compliant licensee-seller, but knowingly ignores such limitations, would not.

Impression's and the Government's position collapses under its own weight. Framing the case in statutory terms, the patentee conveys to a licensee the right to make and sell amplifiers for home use, but retains the right to exclude commercial uses. 35 U.S.C. § 154. There are then two possibilities: the licensee makes and sells only for home use (as it

should) or for commercial use (as it should not). To Impression and the Government, the patentee can sue a commercial user for infringement in the latter circumstance but not the former. Pet. Br. 38-41; U.S. Br. 17-22. But what the *licensee* did or did not do has no bearing on the transaction's starting point: the *patentee* always retained the right to exclude others from commercial use. The same rationale therefore applies in either case: the patentee conveyed authority only for home use, not commercial use, and retained its right to exclude others from commercial use through an infringement suit. Indeed, it takes Alice-in-Wonderland reasoning to think that two transactions designed precisely to effect the *withholding* of commercial-use authority magically become a *conveyance* of that authority.

The logic of *General Talking Pictures* is not so convoluted. It is actually quite straightforward: the licensee-seller had no ability to transfer authority the patentee never conveyed. *Mitchell*, 83 U.S. at 550; *Quanta*, 553 U.S. at 636 (citing *Gen. Talking Pictures*).

Finally, the Government's most recent description of *General Talking Pictures* reflects its ever-evolving contortions to reach a preferred rule of automatic exhaustion. Previously, the Government tried in this Court to secure an automatic-exhaustion rule. See, *e.g.*, U.S. Br. at 32, *Gen. Talking Pictures*, 1938 WL 39344 (patentee should not be permitted "to control the use of the patented article" either "by license or by the terms of sale"). The Justice Department then tried to convince Congress. 4 *Verbatim Record of the Proceedings of the Temporary National Economic Committee* 641-42 (July 17, 1939) (asking Congress to "unconditionally outlaw" limitations on, among other

things, the production and use of patented articles); see Br. in Opp. 17. All of these efforts failed.

Now the Government no longer openly disagrees with *General Talking Pictures* but tries to recast the case to fit its view. But that exercise has also been a moving target. Notwithstanding its arguments in this case, for example, the Government told this Court in *Quanta* that *General Talking Pictures* "necessar[ily]" led to the "seeming anomaly in allowing a patentee to achieve indirectly—through an enforceable condition on the licensee—a limitation on use or resale that the patentee could not itself impose on a direct purchaser." Br. for the U.S. as *Amicus Curiae* at 14, *Quanta*, No. 06-937 (Aug. 2007). And the Government has even shifted positions in *this case*, abandoning a "doctrinal defense of the licensee-sale/patentee-sale distinction" offered below after Judge Taranto dismantled that argument as, among other things, "wrong as a matter of basic patent law." Pet. App. 46a-49a. Such shifting efforts to justify an automatic exhaustion rule betray the rule's shortcomings.

3. Impression's Policy Arguments Are Unpersuasive.

The imagined policy arguments in favor of one-size-fits-all exhaustion are not implicated by the decision below and are otherwise misplaced.

First, Impression argues that the court of appeals' decision would "foreclose" secondary and repair markets. Pet. Br. 41-43. But it cites no evidence to support its dire prediction, nor is there any reason to think such evidence exists. The court of appeals reaffirmed its own decades-old precedent, which was itself based on this Court's cases dating back even further. Pet. App. 59a-60a. Commerce has gotten along

just fine, and there is no reason to think that would change with reaffirmance of that rule.

Second, Impression overlooks the practical limitations imposed by the marketplace. As this Court has recognized, "[n]o sane farmer ... would buy [patented seed] without some ability to grow soybeans from it." *Bowman*, 133 S. Ct. at 1768. Unduly restrictive agreements will ill-serve patentees who discover that "sane" purchasers will not pay for useless or overly-restricted products. That is why plenty of "used car dealers," Pet. Br. 42, and countless other secondhand and repair businesses function perfectly well under the current regime: in the auto context, for example, consumers sensitive to repair cost and resale value would not tolerate sales agreements that purported to limit those activities.[7]

Third, Impression and the Government argue that "a patentee could demand royalties for the use or resale of articles ... at multiple downstream points." U.S. Br. 10. But as the Government acknowledges, *id.* at 32, concern for downstream consumers is fully present—in fact, demonstrably *worse*—under its reading of *General Talking Pictures*. In the Government's view, downstream purchasers risk infringement, but only if the licensee has violated the license terms—which the purchaser will not realistically know. *Id.* (admitting "uncertainties" in its rule).

Fourth, concerns about notice, contract enforceability, and consumer expectations are not implicated by this case. The court of appeals limited its holding to "clearly communicated, otherwise-lawful restrictions." Pet. App. 40a. That is because the parties

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[7] Indeed, Lexmark's decision to offer customers a choice between single- and unlimited-use cartridges reflects such market realities.

stipulated that the single-use limitations represent valid and enforceable terms of sale, for which each counterparty had valid notice. *Id.* at 11a, 14a. In any event, in the extremely unlikely—indeed, counterfactual—event that an unknowing downstream purchaser were sued, it would have multiple remedies, including the *bona fide* purchaser doctrine, *id.* at 14a, and indemnification under the UCC, U.S. Br. 32.

Finally, warnings about "double recovery" are neither relevant to this case—where Impression stipulated that Lexmark's reward for single-use cartridges reflects the value of the authority it conveyed—nor otherwise realistic. Lexmark's pricing structure does not produce double recoveries for the same reason that a patentee who leases a product does not reap more than one "reward" just because it might be paid more than once, or more in total than if it sold the product without restrictions. There is no reason that a patentee's "single reward" must come in the form of one payment at the time of sale. See, *e.g.*, Duffy & Hynes Br. 15-16.

As the court of appeals recognized, sound policy considerations support the flexible exhaustion doctrine it reaffirmed, *supra* § I.C, and Impression's arguments for a rigid rule provide "no reason to depart from the application of § 271 ... derive[d] from the statute and precedent." Pet. App. 60a.

II. SALES OUTSIDE THE UNITED STATES DO NOT AUTOMATICALLY CONFER "AUTHORITY" UNDER U.S. PATENT LAW.

Impression repeatedly attacks a holding the court of appeals never made: that "a foreign sale can *never* exhaust U.S. patent rights." Pet. Br. 10, 50, 51, 53 (emphasis added). This suggests that the court of appeals imposed a rigid rule barring foreign sales from

ever conveying U.S. rights. That suggestion is wrong. The court merely held that a foreign sale does not convey U.S. rights by default. Pet. App. 64a (rejecting "rule that U.S. rights are waived ... simply by virtue of a foreign sale"). All parties agree that a patentee may expressly or implicitly transfer or license its U.S. patent rights through a foreign sale. *Id.* Under the decision below, sales under foreign law may—not must—authorize importation and sale under U.S. law. *Id.* at 64a-66a.

Impression's position goes much further: any authorized foreign sale always exhausts all U.S. patent rights. Pet. Br. 44. Buyers and patentees could *never* agree—no matter how clearly or efficiently—to transfer only foreign rights.

Thirteen judges have considered that position in this case, and thirteen have rejected it. Their unanimity is unsurprising; only elected officials, not judges, are in a position to adopt a policy authorizing worldwide reimportation. The judicial agreement below also reflects the paucity of support Impression musters: an 1885 district court ruling, a 2006 footnote about substantial embodiment, and a 2012 interpretation of the Copyright Act. None even addresses, much less explains, why every foreign sale necessarily and automatically conveys full U.S. authority, the parties' contrary intention notwithstanding. And none overcomes the overwhelming support for the court of appeals' decision in the text of the Patent Act, the international commitments of the United States, the precedent of this Court, and the conceptual underpinnings of the exhaustion doctrine itself.

A. The Text Of The Patent Act Precludes A Rule Of Automatic Worldwide Exhaustion.

1. The Patent Act expressly limits the rights granted under a U.S. patent to the geographic confines of the United States. It confers rights "throughout the United States," bars importation "into the United States," and establishes liability for infringement "within the United States." 35 U.S.C. §§ 154(a)(1), 271(a). These statutory rights contain no exceptions for articles first sold abroad.

Exhaustion, rather, "has long been keyed to the idea that the patentee has received its reward" for surrendering its *U.S.* rights. Pet. App. 76a; *supra* § I.A. When a sale "exhausts" patent rights, "the patentee ... receives the consideration" for an item's use and "parts with the right to restrict that use." *Adams*, 84 U.S. at 456. The sale "eliminates the legal restrictions on what authorized acquirers 'can do with an article embodying or containing an invention'" whose sale the patentee authorized. *Helferich Patent Licensing, LLC* v. *N.Y. Times Co.*, 778 F.3d 1293, 1301 (Fed. Cir. 2015) (quoting *Bowman*, 133 S. Ct. at 1766 & n.2); see Pet. App. 71a-73a.

But the *foreign* sale of a product patented in the United States does not "eliminate[] the legal restrictions" imposed by the U.S. patent, *Helferich*, 778 F.3d at 1301, because the U.S. patent imposed no legal restrictions on the product's sale or use abroad in the first place. The lack of extraterritorial exhaustion under the Patent Act reflects the lack of extraterritorial reach of the Patent Act. See *Deepsouth Packing*, 406 U.S. at 531. Patents granted here give patentees no right to exclude others from making, using, selling, or importing the invention elsewhere. "[B]ecause U.S. patent law has no effect outside U.S. territory,

the buyer in a foreign jurisdiction can already make, use, sell, and offer for sale the invention claimed in the U.S. patent without the need for any permission from the U.S. patent holder." J. Erstling & F. Struve, *A Framework for Patent Exhaustion from Foreign Sales*, 25 Fordham Intell. Prop. Media & Ent. L.J. 499, 525 (2015) (footnote omitted). Impression claims that Judge Taranto's opinion allows a U.S. patentee to "circumvent patent exhaustion" by "selling its goods outside the United States." Pet. Br. 10, 58. But overseas sales cannot circumvent U.S. patent law because U.S. patent law has no force overseas.

A foreign sale, therefore, is the mirror-image of a U.S. sale. It delivers no "reward" "for the sale of ... patented goods" under U.S. law. Pet. Br. 11; see U.S. Br. 27 ("patentee is entitled to collect one ... premium for forfeiting his exclusive right *under U.S. law*") (emphasis added). Rather, the foreign sale compensates a patentee for relinquishing distinct rights, granted under a foreign patent (if any), that otherwise would prevent the buyer's use in that country. Because foreign patent rights and enforcement reflect "different policy judgments about the relative rights of inventors, competitors, and the public," U.S. Br. 26 (quoting *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 455 (2007)), the value conferred by foreign and U.S. patents varies greatly, Pet. App. 78a-79a; *id.* at 134a (dissent description of "country-to-country differences in patent laws"). A "foreign sale, standing alone," therefore, "is not reasonably viewed as providing the U.S. patentee the reward guaranteed by U.S. patent law." *Id.* at 81a. Even the dissent agreed "there is reason to doubt that the rights holder has been fully compensated for a foreign sale." *Id.* at 133a.

2. Yet Impression insists any sale anywhere in the world must convey authority for U.S. importation and resale. Even when an agreement expressly prohibits importation, the Patent Act's right to exclude "imports into the United States" would be ineffective merely because of a foreign sale. Pet. Br. 47 n.12. This flies in the face of Congress's 1994 Patent Act amendment—implementing the express U.S. commitment under the TRIPS agreement, *see* TRIPS art. 28.1, Apr. 15, 1994, Marrakesh Agreement—authorizing patentees to bar importation of a patented invention into the United States. 35 U.S.C. §§ 154(a)(1), 271; Pub. L. No. 103-465, §§ 532-33, 108 Stat. 4809, 4983-90 (1994).

Impression points to nothing in the Patent Act that overcomes this clear statutory exclusion. It claims "the Patent Act does not expressly address patent exhaustion, much less define its geographic scope." Pet. Br. 46. This is backwards. Because the Act as a whole is explicitly territorial, there is no reason to infer silent authorization for extraterritorial exhaustion. To the extent judge-made law informs the Act's meaning at all, it can do so only within the statute's textual confines.

Impression also contends that mandatory worldwide exhaustion is consistent with the territorial scope of the Act. The Copyright Act is also territorial, it maintains, yet *Kirtsaeng* recognizes a worldwide first-sale doctrine. Pet. Br. 53. Despite the Copyright Act's particular territorial limitations, *Kirtsaeng* did not confront the distinct and more stringent limitations of the Patent Act. *Supra* at 38-39. To the contrary, requiring foreign sales to exhaust U.S. patent rights effectively requires foreign purchasers to pay for U.S. authority they may not want or value. Having required this foreign transfer *as a matter of U.S.*

law, Impression's rule unavoidably applies U.S. law to foreign transactions. Such an expansionist approach is at odds with the limited sphere of U.S. patent law, which this Court has construed to "operate only domestically and ... not extend to foreign activities." *Microsoft Corp.*, 550 U.S. at 455. Cf. *Deepsouth*, 406 U.S. at 531 ("Our patent system makes no claim to extraterritorial effect," and "we correspondingly reject the claims of others to such control over our markets.") (citing *Boesch*, 133 U.S. at 703).

B. The United States' International Agreements Are Inconsistent With Automatic Worldwide Exhaustion.

Binding U.S. commitments under international agreements reflect the territorial limits of the Patent Act. Adopting mandatory worldwide exhaustion would undermine those commitments, future negotiations, and "Congress's understanding that exhaustion principles do not preclude enforcement of ... reservations of rights." U.S. Br. 29.

The United States and 175 other signatories to the 1883 Paris Convention for the Protection of Industrial Property have agreed to respect the "independence of patents." See *id.* at 26. Under this agreement, the legal force of a patent issued in one country is limited to that country. See Paris Convention for the Protection of Industrial Property, art. 4*bis* (Mar. 20, 1883) ("Patents applied for in the various countries of the Union ... shall be independent of patents obtained for the same invention in other countries ....").

This independence has fostered considerable variation in the duration, scope, and available compensation for patent grants in different countries. M. Boulware et al., *An Overview of Intellectual Property Rights Abroad*, 16 Hous. J. Int'l L. 441, 489-91 (1994).

Correspondingly, the value of patent rights, even in the same invention, varies significantly across borders. See F. Abbott, *First Report (Final) on the Subject of Parallel Importation*, 1 J. Int'l Econ. L. 607, 619 (1998). These differences render patent law "especially territorial." Pet. App. 86a.

Against this background of national independence, the United States has consistently declined to treat transfers of foreign rights as equivalent to, or disposing of, U.S. patent rights. The United States successfully resisted mandatory international exhaustion in NAFTA negotiations. *See* V. Chiappetta, *The Desirability of Agreeing to Disagree*, 21 Mich. J. Int'l L. 333, 350-55 (2000). In the 1994 Uruguay Round of multilateral trade negotiations, the United States opposed international exhaustion. See Abbott, *supra*, at 609. The Uruguay Round negotiators ultimately failed to reach agreement on the issue, and so the Agreement explicitly left it for individual countries to decide. TRIPS art. 6 ("[N]othing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.").

Other bilateral U.S. treaties affirmatively bar international exhaustion. Agreements with Morocco, Australia, and Singapore—negotiated after the Uruguay Agreement—provide that "the exclusive right of the patent owner to prevent importation ... without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory." See, *e.g.*, United States-Morocco Free Trade Agreement, art. 15.9.4 (June 15, 2004).

These trade agreements specifically bar the type of unauthorized imports Impression seeks to excuse. Impression nonetheless contends the agreements are irrelevant, notwithstanding their plain text, because

implementing legislation stated the agreements do not "amend or modify" U.S. law. Pet. Br. 54.

The point, however, is that the agreements *reflect* U.S. law: there is no reason to suppose Congress and the President ignored or misrepresented U.S. exhaustion law by preserving U.S. patentees' right to exclude patented articles sold abroad. These agreements are "predicated on the assumption" that sales abroad do *not* automatically exhaust U.S. patent rights. U.S. Br. 27-28; Pet. App. 87a-89a.[8]

Likewise, the appropriations riders Impression cites, Pet. Br. 55, merely defer further consideration of exhaustion for future legislation. They plainly do not alter the existing text of the Patent Act or bilateral agreements. U.S. Br. 28. If anything, the fact that Congress has legislated in this area, yet the United States is *not* among the minority of "24 countries [that] have adopted rules of international patent exhaustion," Pet. Br. 55, counsels against judicial interference with legislative and diplomatic processes.

C. The Precedents Of This Court And The Lower Courts Reject Automatic Worldwide Exhaustion.

The precedents addressing the effect of a foreign sale on U.S. patent rights, like the text of the Patent Act, confirm the court of appeals' rejection of mandatory exhaustion. Assuming its preferred conclusion, Impression cites a solitary *domestic* exhaustion case in asserting that "when the U.S. patentee authorizes the sale abroad, it receives its 'tribute,' exhausting its

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[8] Nor is there any reason to believe *Kirtsaeng* rendered the agreements ineffective as to patented products. Pet. Br. 54. As discussed below, the statutory and trade agreement language at issue in *Kirtsaeng* differs significantly from the Patent Act and Paris Convention.

rights to that item." Pet. Br. 49-50 (quoting *Keeler*, 157 U.S. at 667) (citation omitted). In fact, only a single federal court decision has ever reached that conclusion—and it did so before this Court reached the opposite conclusion and without confronting the critical differences between U.S. and foreign patent rights. The weight of relevant judicial authority overwhelmingly supports the conclusion that patentees and foreign buyers may choose to convey U.S. authority in a foreign sale, but do not automatically and necessarily do so.

1. The court of appeals followed this Court's sole decision addressing foreign exhaustion. *Boesch* v. *Graff* held that the buyer of a patented burner in Germany lacked authority under U.S. patent law to import and sell the burner in the United States. 133 U.S. 697 (1890). The foreign sale, this Court held, did not extinguish the U.S. patentee's rights under U.S. law to exclude others from making and selling the product here. *Id.* at 702. The Court expressly distinguished the buyer's right to "make and sell" the article in Germany "under the laws of that country" from "the rights of patentees under a United States patent." *Id.* at 703.

Impression contends that "*Boesch* is entirely consistent with an international exhaustion rule." Pet. Br. 51. It notes that the German seller was not authorized by the U.S. patentee to sell the burner. That was true, but irrelevant. Although the seller had the right to sell in Germany "under the laws of that country," his purchasers "could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent." 133 U.S. at 703. The distinct nature of the foreign and U.S. patent rights at issue, *supra* at 38-39, could hardly be clearer. As the Government explained in

Quanta, *Boesch* held that "a sale under a foreign patent in that foreign country does not exhaust the patent rights under the corresponding United States patent." U.S. Br. 9 n.2, *Quanta*, 2007 WL 3353102 (citing *Boesch*, 133 U.S. 697).

Impression emphasizes (Pet. Br. 51-52) the Court's statement that the German buyer sought to "import th[e] [burners] to and sell them in the United States, without the license or consent of the owners of the United States patent." 133 U.S. at 702. What was lacking, however, was not consent to sell in Germany, but in the United States, where U.S. law gave the patentee authority to exclude the imports regardless of the lawfulness of the German sales. *Boesch* therefore answers the precise question raised by Impression: a lawful sale abroad does not without more give the purchaser "authority" under 35 U.S.C. § 271(a) to make, sell, and import the invention here. Pet. App. 77a-78a.

2. Impression nevertheless relies on two inapposite precedents—*Quanta* and *Kirtsaeng*—that neither cite *Boesch* nor address international exhaustion.

a. *Quanta* did not concern foreign exhaustion at all. It addressed the domestic sale of articles that are not covered by, but substantially embody, a U.S. patent. The Court did not discuss any foreign patent or *Boesch*, despite LGE's contention that foreign exhaustion was a question for remand. Pet. App. 66a n.14. All parties in *Quanta*, plus the Government, told the Court that foreign sales were not at issue. See U.S. Br. 9 n.2, *Quanta*, 2007 WL 3353102 (distinguishing domestic sales at issue from "sale under a foreign patent in that foreign country").

Yet footnote 6 of the Court's opinion, according to Impression, resolves this case: it "establishes" that

because a foreign-sold article may "practice a U.S. patent," any patentee-authorized foreign sale "exhaust[s] U.S. patent rights." Pet. Br. 49 (citing 553 U.S. at 632 n.6).

This revisionist interpretation (which the Government does not adopt) does not remotely resemble the issue *Quanta* addressed in footnote 6. That footnote addressed a specific argument, central to *Quanta* but far removed from this case, about when the sale of a product that substantially embodies a patent can exhaust that patent. In that context, the Court rejected the argument that non-infringing foreign use defeats a substantial-embodiment claim. Resp. Br. at 21 n.10, *Quanta*, 2007 WL 4244683. The Court held that embodiment turns on whether an article practices, not infringes, the patent. And an article can practice a patent anywhere. 553 U.S. at 632 n.6. Impression baldly conflates "practicing" a patent (a practical question of how the invention operates) with "infringing" a patent (a legal question of whether someone uses the invention without authority). The footnote said nothing whatsoever about exhaustion or foreign sales. Pet. App. 66a-67a n.14.

b. Impression likewise exaggerates *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), claiming it "resolves this question." Pet. Br. 45. Nothing in *Kirtsaeng*'s interpretation of the Copyright Act, however, indicates that this Court radically but silently reinterpreted the foreign reach of the Patent Act. On this point, again, the majority (Pet. App. 67a-75a), dissent (*id.* at 130a), and Government (at 29-31) all reject Impression's position.

The question in *Kirtsaeng* was whether importation of copyrighted textbooks manufactured and sold by the copyright holder outside the United States infringed the copyright holder's rights under 17 U.S.C.

§ 106(3), or was instead protected by the Act's first-sale provision, § 109(a). Section 109(a) turns on whether a work sold abroad was "lawfully made under" the Copyright Act. The Court declined to interpret "lawfully made" to mean "U.S.-made." Neither § 109(a)'s text, 133 S. Ct. at 1358-60, nor history, *id.* at 1360-62, imposed a "geographical limitation" on the first-sale provision. The Court then confirmed that its reading was consistent with the common-law first-sale doctrine—including Lord Coke's 1628 discussion of restraints on alienation of chattels. *Id.* at 1363-64. Textbooks printed consistent with the Copyright Act and sold in Thailand, the Court concluded, could be resold by the purchaser in the United States free of copyright restrictions. *Id.* at 1362; Pet. App. 66a.

Contrary to Impression's position, *Kirtsaeng* plainly does not "resolv[e] this question" under the Patent Act. Pet. Br. 45.

First, its holding rested principally on § 109's distinct text and legislative history, Pet. App. 69a-73a, which Impression skips entirely. Significant differences with the Patent Act confine *Kirtsaeng* to the copyright context. This Court has generally refused to treat the Copyright and Patent Acts as "identical." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). And the statutes diverge on the specific question at issue. The owner of a copy of a copyrighted work does not need "authority" from the copyright holder to sell or import that copy in the United States; it can sell "without the authority of the copyright owner" under § 109(a). *Quality King Distribs., Inc.* v. *L'anza Research Int'l, Inc.*, 523 U.S. 135, 142 (1998); Pet. App. 71a-72a. This directly contradicts the Patent Act's prohibition on sale or import "without authority." 35 U.S.C. § 271(a).

The territorial independence of patents established by the Paris Convention, moreover, requires inventors to obtain, maintain, and enforce a patent in each jurisdiction where they seek protection. This differs dramatically from the harmonized copyright regime established by the Berne Convention: copyright is not conferred by the positive law of individual countries, but inheres in the writing itself upon creation. See *Golan* v. *Holder*, 565 U.S. 302, 308-11 (2012). It is unsurprising, therefore, that *Kirtsaeng* never mentioned patent law or *Boesch*. Pet. App. 68a-69a. Patent and copyright decisions are hardly interchangeable. *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 346 (1908); Pet. App. 73a-76a.

Second, *Kirtsaeng*'s failure to identify "geographical distinctions" in the "'common-law doctrine' against restraints on alienation" is not dispositive, *contra* Pet. Br. 46. The Patent Act is replete with territorial restrictions this Court found missing from the Copyright Act. *Supra* at 38-39. In addition, the Patent Act contains a freestanding provision explicitly empowering patentees to exclude imports. 35 U.S.C. § 271(a). And to the extent any common-law rule barring cross-border restraints on alienation ever existed,[9] *Boesch* departed from it more than a century ago. In *Kirtsaeng*, by contrast, the Court found a *lack* of stat-

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[9] Lord Coke's statement, by its terms, is consistent with Lexmark's position: while "giv[ing] or sell[ing]" a patentee's "*whole interest*" in an article eliminates the patentee's control over that article, a transfer of less than that "whole interest" does not. *See, e.g.*, *Chaffee* v. *Bos. Belting Co.*, 63 U.S. (22 How.) 217, 224 (1859) (avoiding infringement requires that users both "had ... title ..., and were rightfully in the use of [the patented article] under that title."). In any event, neither Impression nor *Kirtsaeng* examined the evolution of the common law and its significant revisions recognizing restrictions on chattels. Pet. App. 57a-58a (collecting examples).

utory "language, context, purpose, or history" geographically limiting copyright's first-sale provision, and noted this was consistent with ancient common-law principles. 133 S. Ct. at 1363-64; Pet. App. 56a-57a. Here the statute and precedent amply rebut any contrary common-law authority. Pet. App. 56a-57a. Whatever value Lord Coke's 1628 treatise may have had in confirming *Kirtsaeng*'s non-territorial interpretation of the Copyright Act's statutory first-sale doctrine, it finds no purchase in the Patent Act's territorial scope. Pet. App. 73a-74a.

Third, the "copyright-related consequences" that animated *Kirtsaeng* are largely absent from the patent realm. Pet. App. 69a-71a. Concerns about libraries and museums have no apparent analog. 133 S. Ct. at 1364-67. User uncertainty is far less acute given the shorter and more determinable 20-year life of a U.S. patent relative to the variable duration of a copyright. And the "absurd result" that a rights holder could sell a foreign-made copy yet retain perpetual control, *id.* at 1366, is likewise absent under patent law. These differences between patent and copyright—many of which are quite independent of exhaustion considerations—render futile Impression's effort to "harmonize" the treatment of "[p]roducts ... protected by both intellectual property laws." Pet. Br. 48. *Kirtsaeng* neither attempted nor accomplished any such harmonization.

3. Lower-court decisions, largely ignored by Impression, confirm *Boesch*'s controlling view of international exhaustion. Judge Taranto's opinion extensively reviewed the post-*Boesch* decisions, which reflect both "the *Boesch* principle that foreign laws do not control domestic patent rights," and that a license may "g[i]ve permission for importation" according to "the particular circumstances and language of foreign

sales." Pet. App. 97a. The dissent's reading of the precedent was largely consistent. *Id.* at 127a (collecting cases in which "the authorized foreign seller clearly reserved U.S. rights, [and] there was no exhaustion"); U.S. Br. 24 (U.S. patentees "long permitted ... to reserve their U.S. rights when making ... foreign sales").

Indeed, for over a century, U.S. courts have consistently followed *Boesch* and rejected Impression's mandatory-exhaustion position. These decisions, like the one below, recognize authority to use, sell, or import in the United States based only on an express or implied license. *Dickerson* v. *Matheson*, 57 F. 524, 527-28 (2d Cir. 1893), and *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897), both relied on *Boesch* in finding infringement and barring importation despite lawful and authorized foreign sales. Pet. App. 91a-92a.

The federal courts have consistently understood *Boesch* to reflect the distinct nature of U.S. and foreign patent rights. *Daimler Mfg. Co.* v. *Conklin*, 170 F. 70, 72 (2d Cir. 1909), enjoined a car buyer, who had purchased in Germany, from using the car in the United States. The German sale—as in *Boesch*—could take the car "out of the monopoly of the German patent," but not "the monopoly of the American patentee who has not sold." *Id.*; Pet. App. 93a-94a. *Griffin* v. *Keystone Mushroom Farm*, 453 F. Supp. 1283, 1284-87 (E.D. Pa. 1978), likewise respected the distinct "bundle of rights" under Italian and U.S. patent law. The lawful purchase of U.S.-patented machines in Italy did not exhaust U.S. patent rights, even though the Italian seller also controlled the U.S. rights. Pet. App. 95a-96a. These decisions specifically reject Impression's effort to dismiss *Boesch* as a narrow decision about "unauthorized" foreign sales. Pet. Br. 52. See also *Fuji Photo Film Co.* v. *Jazz Photo*

Corp., 394 F.3d 1368, 1376 (Fed. Cir. 2005) (rejecting "unauthorized sales" interpretation of *Boesch*); *Jazz Photo Corp.* v. *ITC*, 264 F.3d 1094 (Fed. Cir. 2001).[10]

Other decisions merely reflect the position—undisputed other than by Impression—that foreign sales may transfer U.S. patent rights. *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 75-80 (2d Cir. 1920), for instance, cited *Boesch* and *Daimler* in enforcing a worldwide license. The "language used in the agreements" conveyed an unlimited license that covered U.S. use of transcontinental airplanes. Pet. App. 94a-95a; see also *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 937-38 (D.N.J. 1983) (rejecting infringement claim because U.S. patentee consented to U.S. importation); Pet. App. 96a-97a.

Against this weight of authority, Impression cites *Holiday* v. *Mattheson*, a 130-year-old outlier that predated *Boesch* and sheds no light on the foreign-exhaustion question presented here. 24 F. 185, 185 (C.C.S.D.N.Y. 1885); Pet. App. 86a. It confronted the exhaustion question in terms of domestic law without addressing the territorially distinct patent rights implicated by the foreign and U.S. sales at issue. The point of *Holiday*'s ruling, according to Impression, is that the "same exhaustion rule governing authorized domestic sales *also* applies to authorized sales abroad." Pet. for Cert. 28. But Impression cites no authority for such broad-brush equivalence, because no authority exists. Unsurprisingly, the lower-court decisions discussed above have instead looked to *Boesch* for the applicable rule.

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[10] *See also A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923) (citing *Boesch* and rejecting automatic worldwide *trademark* exhaustion).

Impression dismisses, without explanation, each of the post-1952 precedents discussed above. Pet. Br. 50. The federal courts' understanding of exhaustion since the Patent Act of 1952, however, sheds light on statutory text that Impression otherwise ignores. See Pet. App. 95a-97a and U.S. Br. 24-25 (considering post-1952 precedents). And Impression acknowledges that other pre-1952 decisions contradict its mandatory-exhaustion rule. Pet. Br. 50-51 (citing *Matheson* and *Tinling*, *supra*). In fact, the Government indicates there is "*no case* in which a U.S. court has refused to honor an express reservation" in a foreign sale. U.S. Br. 24-25 (emphasis added). Impression's cursory citation of *Kirtsaeng*, *Univis*, and *Quanta*—none of which confronts the territorial and independent nature of national patent rights—is no response.

D. The Consequences Of Mandatory Worldwide Exhaustion Preclude Its Judicial Imposition.

Judicial imposition of worldwide exhaustion would cause significant economic disruption. Requiring U.S. patentees who sell abroad to part with U.S. patent rights would force them to charge a worldwide price or restrict where they sell. Either outcome would harm consumers in under-developed nations, not to mention inventors. *Kirtsaeng* itself acknowledged that extending copyright exhaustion to foreign sales would "make it difficult, perhaps impossible" for copyright owners to continue selling at different prices in different foreign markets, according to demand and purchasing power. 133 S. Ct. at 1370. Such concerns are only exacerbated in the patent context, where life-saving drugs and critical technological infrastructure are at stake. The Paris Convention's territorial regime fosters the marketing of useful inventions around the world. Impression envisions a single

worldwide market for drugs, medical devices, microchips, and more. Pet. App. 97a-101a. The untold differences between distinct national markets, however, doom any effort toward trade harmonization by judicial directive. Certainly no evidence remotely justifies this Court departing from the United States' commitments under existing international agreements and its consistent position in international negotiations. *Supra* at § II.B.

The risk of unintended consumer infringement that troubles Impression, by contrast, is entirely unsubstantiated. Pet. Br. 56-57. It is also the objection least tied to exhaustion. This risk, to the extent it exists, is a consequence not of exhaustion doctrine, but of the Patent Act's strict-liability standard. Pet. App. 98a; U.S. Br. 31. Impression marshals no evidence that patent enforcement against innocent consumers imposes significant economic costs or, indeed, occurs at all. Its prescriptions would provide little comfort in any event: even under Impression's mandatory-exhaustion regime, avoiding infringement would still demand due diligence to assure that patentees had "authorized" the sale of each patented component (and Impressio[illegible] and its *amici* warn that modern products may have thousands). *Supra* § I.D.3; see U.S. Br. 31-32. The Uniform Commercial Code provisions for indemnification and good-faith purchasers, and patent-law damages limitations, already mitigate such imagined concerns. U.S. Br. 32. Any remaining concerns are best addressed under the rubric of an implied (or express) license defense not raised by Impression here—as the decision below took pains to emphasize. See, *e.g.*, Pet. App. 73a, 90a, 98a.

Concerns regarding commercial transactions, moreover, ignore how the law and the marketplace address these issues. No retailer or supplier that sues

or misleads its customers will long remain in business. See Auto Care Ass'n Br. 6 (infringement suits generally do not target consumers). Carmakers, for example, have every interest in securing broad licenses that protect their customers and maintain a robust used-car market and resale value. *See* G. Rub, *The Economics of* Kirtsaeng v. John Wiley & Sons, Inc., 81 Fordham L. Rev. Res Gestae 41, 48-49 (2013). In light of existing exhaustion precedents, manufacturers and resellers alike—including *amici* in this case, *e.g.*, Costco Br. 7-14—already protect cross-border supply chains and intellectual property through contracts, licenses, warranties, indemnification, and insurance.[11] Automatic worldwide exhaustion would dramatically alter these settled relationships and expectations. And to what end? As in the consumer context, the supposed burden of tracing the provenance of patented components in products sourced abroad is a function of patent-infringement law generally, not exhaustion specifically.

As for manufacturing and innovation, Impression's concerns are entirely speculative. Territorial exhaustion creates no "perverse incentive" to offshore U.S. manufacturing. Pet. Br. 58. The place of *sale*, not manufacture, is what matters under the Patent Act—even granting the fantastical assumption that exhaustion law could dictate siting decisions for global manufacturing concerns.

Any negative impact on innovation, likewise, is purely speculative. *Id.* Allowing inventors their full

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[11] Contracts are ineffective to protect the interests of patentees, however, given the ease with which an unauthorized reseller or importer could avoid the necessary privity. Impression and its *amici* cannot explain how contract remedies against a foreign direct purchaser could police unauthorized U.S. importation and resale.

reward encourages innovation in precisely the manner envisioned by the Constitution. *Supra* § I.C. Where, as here, existing precedent has been in place for years, and parties rely on it to structure their affairs, courts should be especially wary of disrupting settled expectations. *Kimble*, 135 S. Ct. at 2410. To the extent Impression's policy goals are creditable, they are for the political branches to pursue.

E. The Government's Rule Of Presumptive Exhaustion Is Wrong And Unprincipled.

Compared to Impression's mandatory rule, the Government's *presumptive* version of worldwide exhaustion would at least mitigate some of the harsher policy consequences described above. U.S. Br. 32-33. That presumption, however, is little more than a naked policy preference—both textually and doctrinally unjustified.

Having argued vehemently against a presumptive rule domestically, the Government points to nothing in the text, structure, or history of the Patent Act that supports its preferred default here. Nor is there anything: the territorial nature and distinct value of national patents under the Act and the Paris Convention—which the Government emphasizes, *id.* at 26—support the opposite rule. Because a sale abroad "does not constitute an exercise of patent rights under U.S. law," and may not fetch a price "necessarily calibrated to reward the ... relinquishment of those U.S. rights," *id.* at 27, there is no reason to presume the parties intended any effect on U.S. patent rights. A multinational license cannot be implied by silence. It is simply illogical to presume most patentees intend a sale anywhere to authorize use and sale everywhere.

Neither *Boesch* nor the decisions applying it articulate the Government's preferred presumption. *Boesch* did not address reservation of rights at all, but treated the difference between German and U.S. law as dispositive. See *supra* § II.C. And none of the three lower-court decisions on which the Government relies (at 25) actually demands an "express" reservation. The discussion of contractual reservations in *Curtiss* was dictum, because that case involved an express *authorization*. 266 F. at 75, 77. *Sanofi* likewise mentioned "written restrictions upon ... sale," but treated the unrestricted contractual authorization as dispositive consent for U.S. use. 565 F. Supp. at 938. And *Holiday* v. *Mattheson*, as discussed above, is a pre-*Boesch* decision that erroneously applied domestic exhaustion principles without considering whether they might apply differently in another jurisdiction. In any event, it did not articulate an express-reservation requirement, speaking only of "circumstances which *imply*"—not expressly restrict—buyers' rights. 24 F. at 186 (emphasis added). Given the lack of legal support for the Government's preferred rule, this Court should not countenance it.

Should the Court entertain this presumption, however, it should at least remand for consideration of Lexmark's reservation of its U.S. rights, as the Government agrees. U.S. Br. 34. Lexmark's cartridges are "regionalized" by design, labeling, and marketing. And many are sold abroad under the Return Program's single-use terms, which explicitly reserve U.S. rights under the Government's standard.

CONCLUSION

For the foregoing reasons, the Court should affirm the judgment of the court of appeals.

Respectfully submitted,

TIMOTHY C. MEECE
V. BRYAN MEDLOCK, JR.
JASON S. SHULL
AUDRA C. EIDEM HEINZE
BANNER & WITCOFF, LTD.
Ten South Wacker Drive
Chicago, IL 60606
(312) 463-5000

CONSTANTINE L. TRELA, JR.*
ROBERT N. HOCHMAN
SIDLEY AUSTIN LLP
One South Dearborn Street
Chicago, IL 60603
(312) 853-7000
ctrela@sidley.com

STEVEN B. LOY
STOLL KEENON OGDEN PLLC
300 W. Vine Street
Suite 2100
Lexington, KY 40507
(859) 231-3000

BENJAMIN BEATON
JOSHUA J. FOUGERE
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005
(202) 736-8000

D. BRENT LAMBERT
LEXMARK INT'L, INC.
740 W. New Circle Road
Lexington, KY 40550
(859) 232-2000

Counsel for Respondent

* Counsel of Record

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IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
JOHN T. LEWIS
KARIANNE M. JONES
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

Counsel for Petitioner

Library of Congress

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REPLY BRIEF FOR PETITIONER[1]

This Court has held that "the initial authorized sale of a patented item terminates all patent rights to that item." *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013) (quoting *Quanta Computer, Inc.* v. *LG Elecs.*, 553 U.S. 617, 625 (2008)). "[A] patentee may not attach to the article made by him or with his consent a condition running with the article in the hands of purchasers." *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 494 (1926).

Lexmark asks the Court to overturn this settled principle and make patent exhaustion optional. It also seeks a geographic limitation on exhaustion. Both arguments are foreclosed by clear precedent.

I. An Authorized Domestic Sale Of A Patented Article Exhausts All Patent Rights In That Article.

Patentees may not exert patent-based, post-sale control following the authorized sale of a patented article. Pet. Br. 15-32. That rule resolves this question.

Lexmark offers four responses. It invokes Sections 154 and 271 of the Patent Act; it attempts to conflate restrictions on a licensee's authority to sell with post-sale restrictions; it asserts that a separate doctrine, patent misuse, supplies the sole limitation on patentees; and it misconstrues this Court's precedents, ignoring the Court's oft-stated explanation of the exhaustion doctrine and advancing substitute ra-

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[1] The Rule 29.6 Statement in the opening brief remains accurate.

tionales for the Court's decisions. Each contention lacks merit.

A. Patent exhaustion constrains the rights conferred by the Patent Act.

Lexmark gets the issue precisely backward in contending that patent exhaustion is rooted in the text of Sections 154(a) and 271(a) of the Patent Act (Br. 12-14, 14-15, 24-25). Patent exhaustion operates as a "limit" on "the patent rights that survive the initial authorized sale of a patented item." *Quanta*, 553 U.S. at 621. See also *Bowman*, 133 S. Ct. at 1766 & n.2. That limit rests on pre-existing common law principles—the "first sale" doctrine—which applies because nothing in the Patent Act negates it. And certainly nothing in the statute authorizes patentees to enforce patent-based post-sale restrictions.

1. Despite applying patent exhaustion on scores of occasions (see, *e.g.*, Pet. Br. 15-35), the Court has never located the doctrine in Sections 154, 271, or their predecessors.

Rather, "[t]he 'first sale' doctrine is a common-law doctrine with an impeccable historic pedigree." *Kirtsaeng* v. *John Wiley & Sons*, 133 S. Ct. 1351, 1363 (2013). See also Pub. Knowledge Br. 8-14; Ariel Katz, et al., *The Interaction of Exhaustion and the General Law*, 102 Va. L. Rev. Online 8 (2016). Patent exhaustion rests on this fundamental background legal principle—not negated by the Patent Act's text and therefore adopted by Congress. "'[W]hen a statute covers an issue previously governed by the common law,' we must presume that 'Congress intended to retain the substance of the common law.'" *Kirtsaeng*, 133 S. Ct. at 1363. And that is especially true when, as here, Congress has reenacted the law

after this Court has consistently applied the common law principle.

Lexmark cannot identify a single decision of this Court suggesting that patent exhaustion stems from, and is thus defined by, any statute. See Resp. Br. 13. In *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1, 17 (1913), the Court noted that, after the "right to vend conferred by the patent law has been exercised," additional restrictions are "beyond the protection and purpose of the act"—but it cited no statute. So too in *Motion Picture Patents*. Pet. Br. 29-31. And *Seymour*, cited by Lexmark, was not an exhaustion case at all.

When Congress wishes to codify the exhaustion doctrine, it does so clearly—as in the Copyright Act. 17 U.S.C. § 109. Congress did not do so here.

2. Separately, neither provision's text justifies patent-based, post-sale restrictions. Lexmark observes (Br. 12) that both Sections 154(a) and 271(a) define the patentee's rights in the disjunctive.

But the exhaustion doctrine preserves these rights because it applies on a per-item basis. Patent exhaustion "restricts a patentee's rights only as to the 'particular article' sold." *Bowman*, 133 S. Ct. at 1766. It "leaves untouched the patentee's ability to prevent a buyer from making new copies of the patented item." *Ibid.* Lexmark is thus wrong to fear that the exhaustion doctrine leaves a patentee "with no rights to exclude *in any respect*." Resp. Br. 14. It retains *all* rights, *except* as they relate to the single article sold.[2]

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[2] 35 U.S.C. § 261, which makes patents assignable, at most supports the settled proposition that a patentee may offer a lim-

Lexmark similarly insists (Br. 25) that Section 271(a)'s reference to acts "without authority" means that the buyer of a patented good must obtain a patentee's authority to resell or repair that good, and that a patentee does not "provide[] 'consent' or 'authority' by withholding it." But patent exhaustion—by terminating the patentee's rights with respect to articles purchased in an authorized sale—renders the patentee's authority *irrelevant* as to those articles.

Nearly a century ago, it was already "well settled" "that where a patentee makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase." *Gen. Elec.*, 272 U.S. at 489. The seller's authority is immaterial because the article "has passed beyond the scope of the patentee's rights." *Ibid.* See also Pet. Br. 30-32.

The Copyright Act again confirms the point. Section 106 states that the copyright owner "has the exclusive rights to do and to *authorize*" certain actions, such as selling a copyrighted work. 17 U.S.C. § 106 (emphasis added). The exhaustion provision, Section 109, makes clear that the owner of a copyrighted work may resell that good "*without* the authority of the copyright owner" (17 U.S.C. § 109 (emphasis added))—it does not grant "authority" to the owner.

In sum, exhaustion permits the owner of the purchased article to act *without* the patentee's "authori-

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ited *license* for the manufacture and sale of an article. See Pet. Br. 38-41.

ty"—otherwise, exhaustion would be a license by another name.[3]

B. Lexmark improperly conflates licenses and sales.

Patent exhaustion applies identically to any authorized sale of an article embodying the patent, whether the sale is made by the patentee itself or by an entity that the patentee has licensed to manufacture and sell the article. See Pet. Br. 38-41. Just as a patentee may decide when and to whom it will sell its own articles, it may similarly limit the circumstances in which its licensee is authorized to sell. *Ibid.* Once an authorized sale takes place, however, neither conditions imposed by the patentee nor conditions imposed by a licensee are enforceable via the patent law.

Lexmark's entire argument rests on muddling these basic principles. This Court has upheld patentees' use of patent remedies to enforce restrictions on when and to whom a licensee may sell articles manufactured under the license—in other words, restrictions on the first sale by the licensee of the patented article. When the licensee violates those restrictions, the licensee is subject to infringement liability and the downstream purchaser is subject to infringement liability, because there has been no authorized sale exhausting the patent rights.

But Lexmark wrenches those decisions out of critically-important context in arguing that they jus-

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[3] If the purchaser of a good must have the patentee's "authority" for repair or resale, then patent exhaustion necessarily supplies that authority. See IP Profs. Br. 9-11; Pub. Knowledge Br. 14.

tify invocation of patent remedies to enforce post-sale restrictions that apply *after* the first authorized sale occurs. See Resp. Br. 14-17, 22-24, 31-32. Neither a patentee nor a licensee may impose post-sale restrictions enforceable under the patent law.

The first case Lexmark identifies (Br. 14-15)—*Bement* v. *Nat'l Harrow Co.*, 186 U.S. 70, 91 (1902)—demonstrates this critical distinction. *Bement* concerns the ability of a patentee "to control his *licensee's* sale price within the limits of the patent monopoly." *United States* v. *Line Material Co.*, 333 U.S. 287, 303 (1948) (emphasis added). That is a restriction on the right of a licensee to make an authorized sale; it is not a restriction on the right of a purchaser *following* that first sale.

Mitchell v. *Hawley* also involved a licensee/seller, in the particular context where the patent term was extended post-license. 83 U.S. at 549-551. The licensee's sale of the article was not authorized by the patentee (*id.* at 551)—and therefore did not exhaust—which is how the Court has consistently understood *Mitchell*. See *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 304 U.S. 175, 181-182 (1938).

Finally, in *General Talking Pictures*, the licensee "had no right to sell the [patented] amplifiers" for commercial use; there was, therefore, no authorized sale of the amplifiers. 304 U.S. at 180-181. The "restrictive license" at issue was a restriction on the scope of the licensee's authority to sell, not a post-*sale* restriction. 305 U.S. at 127. See Pet. Br. 38-41; IP Professors Br. 16-18.

By improperly conflating the patentee's recognized ability to impose restrictions on sales by licensees with the entirely different issue of post-sale re-

strictions (by licensees or patentees), Lexmark advances multiple erroneous arguments.

First, Lexmark asserts (Br. 22-23) that our "rule would erect an artificial and illogical division between licensing patentees and manufacturing patentees." Lexmark later (Br. 32-34) reiterates that there is "no principled basis" for holding that a "patentee may not achieve in one step (by making and selling itself) what it can achieve in two." There is no distinction—authorized sales by the patentee and by the licensee both terminate patent rights.

General Talking Pictures merely establishes that the patentee retains the right to determine when a sale is "authorized" and thus triggers patent exhaustion. Thus, the patentee can require its licensee to include in the sales contract a provision barring resale or reuse of the patented article—just as the patentee can include such a provision in its own sales contracts. If a licensee sells in violation of the terms of its license, there is no exhaustion. See Pet. Br. 38-41.

But if the licensee complies, and the purchaser violates that restriction, patent remedies are not available—just as they are not available in the event of noncompliance by the purchaser from the patentee. Contract law supplies the only remedy.

Second, Lexmark claims (Br. 30-31) there is "no practical reason" why a patentee should be able to control sales by licensees, but not limit the range of rights conferred by sale. The distinction rests on common sense: a licensed manufacturer stands in the shoes of the patentee prior to a first sale; and the patentee should be able to require the licensee to abide by the same conditions that the patentee would

adhere to. Upon sale, however—whether by the patentee or licensee—an article becomes the purchaser's "private individual property," and "he may continue to use it until it is worn out, or he may repair it or improve upon it as he pleases." *Bloomer* v. *Millinger*, 68 U.S. 340, 351-352 (1863).

Third, Lexmark claims (Br. 32, 35) that we advocate a "perverse rule" under which "an innocent purchaser who buys from a misbehaving limited licensee" is liable, but not a misbehaving "purchaser who buys from a compliant licensee-seller." But this Court has not decided whether a purchaser who does not know about the licensee's lack of authority can be held liable for infringement. *Gen. Talking Pictures*, 304 U.S. at 182.

Lexmark's feigned concern for consumers is also irreconcilable with its proposed rule. Its solution is to *expand dramatically* consumers' liability—encompassing those who purchase from unauthorized licensees *and* those who purchase subsequent to an authorized sale by the patentee or licensee if the patentee retains some of its rights.

Finally, Lexmark also asserts (Br. 32-33) that a purchaser is liable for infringement if it uses an article in a manner that violates restrictions imposed on the licensee. But those were the precise facts of both *Keeler* and *Quanta*—and this Court rejected the infringement claim. Pet. Br. 40-41.

C. Patent exhaustion is distinct from patent misuse.

The "patent misuse defense to infringement claims" (*Illinois Tool Works Inc.* v. *Indep. Ink, Inc.*, 547 U.S. 28, 38 (2006)), applies when a patentee "attempt[s] illegally to extend the scope of his patent

monopoly." *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 180 (1980).

Lexmark views (Br. 19-22) patent misuse as the *only* limit on a patentee's ability to enforce patent-based post-sale restrictions. That is incorrect.

Patent exhaustion and patent misuse "are separate doctrines, despite their shared focus on the limits of the patent monopoly." Alfred C. Server & William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following* Quanta, 64 Hastings L.J. 561, 613 (2013).

Exhaustion bars *patent*-based control—"the initial authorized sale of a patented item terminates all patent rights to that item." *Bowman*, 133 S. Ct. at 1766. It "narrow[s] the scope of possible patent infringement claims." *Illinois Tool Works*, 547 U.S. at 38. And exhaustion leaves open the question of post-sale control "aris[ing] as a question of contract." *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659 666 (1895). See also *Quanta*, 553 U.S. at 637 n.7; *Bloomer*, 55 U.S. at 549-550.

Patent misuse, by contrast, focuses on whether a patentee used its patent as an improper "'means of restraining competition.'" *Illinois Tool Works*, 547 U.S. at 38. It forms a "defense to infringement claims." *Ibid.*

Misuse and exhaustion may overlap: each forbids patent-based, post-sale restrictions requiring certain tying arrangements.[4] But they do so for different reasons: exhaustion forbids all *patent*-based, post-

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[4] See, *e.g.*, *Carbice Corp. of Am.* v. *Am. Patents Dev. Corp.*, 283 U.S. 27, 30-31 (1931) (misuse); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917) (exhaustion).

sale restrictions, whereas patent misuse forbids a restriction that improperly extends the patent monopoly.

Indeed, although exhaustion limits only patent remedies, patent misuse reaches post-sale *contractual* restrictions as well as patent license terms. *Carbice*, 283 U.S. at 30-34 (patent misuse rendered invalid a contract at the time of the sale that precluded purchasers from using patented containers in combination with solid carbon dioxide made by others).

Given these basic differences, it is not surprising that this Court's decisions do not support Lexmark's contention that patent exhaustion is a species of patent misuse. Thus, the Court has repeatedly applied the exhaustion doctrine without any regard for whether the circumstances separately constitute misuse. See Pet. Br. 15-32. *Univis*, *Quanta*, and *Motion Picture Patents*, among others, each prove the point. See pages 10-13, *infra*.

D. This Court's precedents establish that an authorized sale exhausts all patent rights to the sold item.

Lexmark's central assertion—that "this Court's exhaustion precedent allow[s] patentees and their counterparties to allocate the separate and divisible rights Congress granted to inventors" in authorized sales (Br. 11-12)—has been expressly rejected in numerous cases. Instead of attempting to reconcile its position with this Court's explanations of its holdings, Lexmark reanalyzes the cases to produce new, revisionist explanations for each decision, completely at odds with this Court's prior pronouncements.

1. Lexmark asks (Br. 27) the Court to ignore *Univis*'s "broad statements" regarding patent exhaustion, arguing that *Univis* turned solely on the Court's rejection of the vertical price-fixing scheme. That misunderstands *Univis*. See Pet. Br. 16-20.

Univis presented two defenses to the claim that its licensing scheme violated the Sherman Act: first, that its scheme was "excluded by the patent monopoly from the operation of the Sherman Act;" and, second, that its "system" was either not prohibited by the Sherman Act or "exempted from it" by the Miller-Tydings Act. 316 U.S. 241, 243 (1942). See also U.S. Br., *Univis*, 1942 WL 53856, at *2-3.

The Court held that patent exhaustion barred Univis's first defense, concluding that "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." 316 U.S. at 249. The "licensing system" was not, therefore, "within the protection of the patent law." *Id.* at 252.

The Court then considered Univis's second argument that it could nonetheless impose the restrictions as a matter of *contract*. *Id.* at 252-254. As the government explained in that case, Univis contended "that even if their patent licensing system is invalid, they cannot be charged with violating the Sherman Act because the identical restraints of trade are contained in the resale price-maintenance contracts." 1942 WL 53856, at *67. The Court found that the contracts were "unreasonable restraints within the meaning of the Sherman Act." 316 U.S. at 252.

Lexmark fixes on the Court's observation that it might "assume that [the non-price] restrictions might otherwise be valid." *Id.* at 254. But the Court's statement referred to the possible validity of those contract restrictions under the antitrust law—it cited an antitrust precedent just after the statement quoted by Lexmark. The statement says absolutely nothing about the scope of exhaustion.

2. *Quanta* independently confirms that the exhaustion principle bars Lexmark's patent claims.

Lexmark's main contention is that *Quanta* "involved no restrictive condition." Resp. Br. 28; *id.* at 19. But this Court, the court of appeals, and the parties all agreed that LG Electronics required Intel to condition its sales on the requirement that purchasers agreed to not combine the products with non-Intel parts. 553 U.S. at 623-624. See also Pet. Br. 20-23.

This Court's holding that exhaustion applied (see 553 U.S. at 638) necessarily repudiated the Federal Circuit's "conditional sale" doctrine—a conclusion shared by lower courts and commentators alike. Pet. Br. 23-24; Pet. App. 153a-154a.

Lexmark attempts (Br. 19, 28) to confuse the matter by asserting that LG Electronics imposed no limit on *Intel*'s ability to sell. This is bald misdirection. The issue was whether LG Electronics had *authorized* its licensee Intel to make the sales, an issue separate from whether there was a post-sale restriction. The Court concluded that Intel had authority to sell, which is why exhaustion applied. 553 U.S. at 636-637.

3. Lexmark says virtually nothing about the overruling of *A.B. Dick*.

A.B. Dick's holding—indistinguishable from Lexmark's argument in the present case—was that the "right to sever ownership and use is deducible from the nature of a patent monopoly"; "if that reserved control of use of the machine be violated, the patent is thereby invaded." 224 U.S. 1, 24-25 (1912). Cf. Resp. Br. 11-12 ("separate and divisible rights"); 17 ("if the patentee transfers one of three sticks to a customer").

"The defect in this thinking," this Court explained in *Motion Picture Patents*, springs "from failure to distinguish between the rights which are given to the inventor by the patent law * * * and rights which he may create for himself by private contract." 243 U.S. at 514. *Motion Picture Patents* therefore "put an end to the notion that patent owner's right to pass divided title was unrestricted." 6 *Moy's Walker on Patents* § 19:20 (4th ed. 2016).

Lexmark tries to cabin *Motion Picture Patents* and its progeny as grounded in findings of patent misuse. Resp. Br. 19-22, 29-30. But *Motion Picture Patents* rested expressly on patent exhaustion. 243 U.S. at 516. See also IP Profs. Br. 13-14. And that is how this Court has since understood it: *Motion Picture Patents* "simply narrowed the scope of possible patent infringement claims." *Illinois Tool Works*, 547 U.S. at 38.

The Court has consistently confirmed that the underpinning of patent exhaustion is not patent misuse, but instead the straightforward proposition that selling "a patented machine" "place[s]" it "beyond the confines of the patent law." *Bos. Store of Chi.* v. *Am. Graphophone Co.*, 246 U.S. 8, 25 (1918). The Court identified that same rule, without reference to misuse, in *United States Shoe Machine Co.*,

General Electric, *Ethyl Gasoline*, and *Line Materials*. Pet. Br. 31-32.

4. The Court's earliest patent cases are also inconsistent with Lexmark's argument.

In *Wilson* v. *Rousseau*, 45 U.S. (4 How.) 646 (1846), the Court recognized that Congress had addressed the particular question at issue, making inquiry into exhaustion unnecessary. Cf. Resp. Br. 15-16. The Court in *Bloomer* v. *McQuewan*, however, reached the same result on similar facts as a matter of patent exhaustion. 55 U.S. 539, 549 (1852).

Lexmark seizes on a series of references to "conditions" and "restrictions." Resp. Br. 18-19, 31-32. But *Mitchell*'s reference to "conditions" means a conditional sale, by which title passes on the occurrence of a condition precedent. Pet. Br. 32-35. It does not mean a post-sale condition of the sort at issue here.

In addressing *Keeler*, Lexmark disregards this Court's clear statement of the governing rule: "the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent," and renders it "entirely free from any further claim of the patentee." 157 U.S. at 666.

Instead, Lexmark attempts to contort (Br. 29-30) *Keeler*'s statement regarding contracts, asserting that contracts may support *patent* claims. 157 U.S. at 666. That is an implausible reading, confirmed by the Court's later holdings: such "special contract[s]" raise "question[s] *outside* the patent law." *Motion Picture Patents*, 243 U.S. at 509 (emphasis added). See also *Quanta*, 553 U.S. at 637 n.7.

E. Patent-based, post-sale restrictions would significantly injure competition.

Allowing patentees to opt out of patent exhaustion would eviscerate resale and repair markets, harming competition and—ultimately—consumers.

The effects on resale and repair markets would be stark—including significant, if not complete elimination of the $17 billion secondary market for smartphones (Pub. Knowledge Br. 24), the $341 billion auto repair market, which supports 150,000 independent businesses (Auto Care Ass'n Br. 28), and the medical device reprocessing industry, which saves hospitals more than $500 million each year (Med. Device Reprocessors Br. 9).

Lexmark asserts (Br. 34-35) that these harms have not yet materialized. But, because courts and commentators have viewed *Mallinckrodt* skeptically, no major market participants today attempt to enforce patent-based, post-sale restrictions. Pet. Br. 23 & n.5. See also Intel Br. 28-29. In fact, large segments of industry have relied on the view that such restrictions are *impermissible*. See Med. Device Reprocessors Br. 13-16. It is thus no surprise that the harms have "proved limited so far"; undoubtedly patentees will "decide differently if the law is clarified in their favor." *Kirtsaeng*, 133 S. Ct. at 1366.[5]

As to Lexmark's claim that "tailored exchanges" enhance consumer choice (Br. 23, 35), patentees may use leases and contracts to impose post-sale restrictions. But expanding the patent monopoly itself

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[5] The consumer safety issues raised by Lexmark's *amici* are the province of consumer protection laws and agencies—not the Patent Act. Med. Device Reprocessors Br. 11-13.

beyond the point of an authorized sale would enable patentees to control not just the initial market for their goods, but all secondary resale and repair markets as well. The inevitable effect would be reduced competition and higher prices.

II. There Is No Geographic Limitation On The Exhaustion Principle.

The Patent Act neither codifies nor limits the exhaustion doctrine. The scope of exhaustion is therefore governed by the common-law rule—and *Kirtsaeng* authoritatively establishes the contours of that rule.

A. The Patent Act does not exclude foreign sales from exhaustion.

Lexmark argues (Br. 38) that the Patent Act "[p]recludes" international exhaustion because the rights conferred in Section 271(a) "contain no exceptions for articles first sold abroad." But that reprises Lexmark's argument, advanced with respect to the first question, that exhaustion is precluded by the absence of any express recognition in the Patent Act. It should be rejected for the same reasons. See pages 2-5, *supra*. Because exhaustion "limits" the patentee's statutory rights, the absence of any express statutory limitation is irrelevant. *Bowman*, 133 S. Ct. at 1766.

Lexmark further observes (Br. 40, 48-49) that Sections 154(a) and 271(a) give patentees the exclusive right to import patented goods. But, again, that statutory text does not address the *limit* that exhaustion places on the import right, any more than the parallel portions of those sections address the limit on the right to sell that results from a domestic authorized sale. The import right enables a U.S. pa-

tentee to sue importers to exclude from the U.S. foreign-made goods sold *without* the U.S. patentee's authorization (otherwise, the patentee would only be able to sue end-users).[6]

Finally, contrary to Lexmark's contention (Br. 41), international exhaustion does not apply "U.S. law to foreign transactions." Rather, it holds that a U.S. patentee's foreign conduct affects subsequent claims of U.S.-based infringement. "A number of issues in patent law turn on events that occur in foreign countries." Margreth Barrett, *The United States' Doctrine of Exhaustion*, 27 N. Ky. L. Rev. 911, 946 n.118 (2000). See also IP Profs Br. 28-29.

B. *Kirtsaeng* and *Quanta* require international exhaustion.

1. *Kirtsaeng*'s square holding—that the common-law exhaustion rule "makes no geographical distinctions"—resolves the issue here. 133 S. Ct. at 1363. See Costco Br. 33-36; Intel Br. 17-18.

Although, as Lexmark contends (Br. 47), *Kirtsaeng* did interpret a specific statutory provision, *Kirtsaeng* identified the background common-law rule as part of its analysis—the question it addressed was whether the statutory provision limited the application of the common-law rule. Pet. Br. 45-48. Here, there is no statutory provision that can have such a limiting effect.

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[6] The Copyright Act also provides importation rights (see 17 U.S.C. § 602); the Court nonetheless held in *Kirtsaeng* that non-U.S. sales exhausted copyrights.

Lexmark seizes on the term "authority" in Section 109 of the Copyright Act (Br. 47), but that is a consequence of Congress's decision to codify copyright exhaustion. Patent exhaustion likewise determines a purchaser's rights absent authority from the patentee. See pages 4-5, *supra*.

Lexmark points to the Berne Convention regarding copyright (Br. 48)—but that treaty had no bearing on the Court's articulation of the common-law rule. In any event, the Patent Cooperation Treaty created an international patent application to harmonize patents.

We do not argue that patent and copyright doctrines are "interchangeable." Resp. Br. 48. But the common-law rule is the same, and—in the absence of a decision by Congress that the rule should not apply—it should lead to the same result. See Pet. Br. 47-48. Certainly this Court has repeatedly rejected the Federal Circuit's patent-law holdings that disregard analogous non-patent law. See, *e.g.*, *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Lexmark also argues (Br. 49) that certain "copyright-related consequences" are absent here. But Lexmark has no response to the basic point that many—if not most—products are subject to both copyright *and* patent. Pet. Br. 48. Disparate rules for patent and copyright exhaustion would yield destructive complexity and gamesmanship in international trade. See Costco Br. 15.

It also protests (Br. 39) that a foreign sale does not confer the "reward guaranteed by U.S. patent law." When patentees sell goods, however, they set the price—which can reflect all intellectual property

rights they contain. The U.S. patent rights will always factor into that calculus.

Moreover, these policy arguments are appropriately addressed to Congress—which has the power to craft a tailored patent-specific exhaustion rule to govern some or all non-U.S. sales if it chooses to do so.

2. *Quanta* further confirms this result.

Lexmark disregards (Br. 46) the central premise on which *Quanta* relied: exhaustion turns on "whether the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing." *Quanta*, 553 U.S. at 632 n.6. (quoting *Univis*, 316 U.S. at 249). The relevant inquiry for exhaustion, this Court held, is not whether there is infringement (which is territorial), but rather whether the article practices the patent (which is not territorial).

LG Electronics argued that articles "sold overseas" would not trigger exhaustion. *Quanta*, 553 U.S. at 632 n.6. The Court disagreed, finding that the geographic location of the sale was not relevant to exhaustion.

3. Lexmark is simply wrong in asserting (Br. 44-45) that *Boesch* v. *Graff*, 133 U.S. 697 (1890), held broadly that foreign sales do not exhaust U.S. patent rights. See Pet. Br. 51-53; Intel Br. 8-10; IP Professors Br. 25-26.

The foreign seller in *Boesch* was not authorized to sell by the U.S. patentee, but instead was able to sell without authorization because of Germany's prior use law. 133 U.S. at 703. Lexmark dismisses this point as "irrelevant" (Br. 44), but the fundamental

prerequisite for exhaustion is a first sale *authorized* by the U.S. patentee. *Bowman*, 133 S. Ct. at 1766. That prerequisite was wholly absent in *Boesch*.

International exhaustion was recognized in *Holiday* v. *Mattheson*, 24 F. 185, 185-186 (C.C.S.D.N.Y. 1885). The Second Circuit subsequently relied on *Holiday* to explain that a foreign sale "frees the article from the monopoly of both his foreign and his domestic patents." *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 78 (2d Cir. 1920). Lexmark points to lower court holdings (Br. 49-52), but not one establishes that foreign sales can *never* exhaust U.S. patent rights.

C. The United States' trade agreements do not support a geographic restriction.

The trade agreements cited by Lexmark and the United States do not support a geographic limit on exhaustion.

To begin with, as Lexmark acknowledges (Br. 42), Article 6 of TRIPS provides, expressly, that the agreement does not address exhaustion. Subsequently, Article 5(d) of the Doha Declaration specifies that each nation is "free to establish its own regime for such exhaustion." International law thus does not address this issue.

Lexmark and the government rely on three bilateral trade agreements. Resp. Br. 41-43; U.S. Br. 27-29. Neither Lexmark nor the government dispute that some of these agreements adopted the same exhaustion rule for copyright—and that was no obstacle to international exhaustion in *Kirtsaeng*. Pet. Br. 54. That is because the implementing legislation for each agreement provided that it did not amend or modify U.S. law except as specifically provided in the

legislation—and nothing in the legislation addressed exhaustion. Pet. Br. 54-55.

Even if these reflected the view of the U.S. Trade Representative (Resp. Br. 43), Congress subsequently repudiated them by expressly *prohibiting* similar future provisions. Pet. Br. 55.

D. A geographical limit would harm U.S. industry, consumers, and workers.

Expressing concern for "consumers in underdeveloped nations," Lexmark advocates for the ability to price discriminate against U.S. consumers. Resp. Br. 52-55. But policy concerns provide no basis for ignoring the controlling legal principles.

If policy were relevant, moreover, it weighs in favor of international exhaustion. Domestic-only exhaustion would not benefit foreign consumers—and it would have devastating consequences for American industry, consumers, and workers alike.

Global marketplace. Lexmark asserts that our approach would create a "worldwide market" for patented goods. Resp. Br. 52-53. Not so. Manufacturers may segment markets based on regional product variants, using different languages, packaging, or technical geographic restraints. See Benjamin Pi-wei Liu, *Towards a Patent Exhaustion Regime for Sustainable Development*, 32 Berkeley J. Int'l L. 330, 365 (2014). And industry-specific statutes prohibit some types of parallel imports. See. *e.g.*, 21 U.S.C. §§ 381(d), 384 (restricting pharmaceutical imports); Public Citizen Br. 2-13 (describing separate rules in pharmaceutical context). The patent laws do not give patentees *greater* ability to discriminate by market.

American industry. Lexmark's rule would severely harm U.S. businesses dependent on global supply chains. Intel is illustrative: its supply chain "comprises more than 16,000 suppliers in over 100 countries"—the complexity and cost of negotiating licenses throughout is prohibitive. Intel Br. 7. See also Costco Br. 7-12; SanDisk Br. 14; Ass'n of Serv. & Computer Dealers Int'l Br. 6; HTC Br. 6-8.

Lexmark responds that, with international exhaustion, supply chains may still have to consider whether licensees' sales were authorized. But in the real world, that risk is far more limited than the uncertainty created by Lexmark's vastly broader rule—because patentees typically publish lists of authorized sellers. Intel Br. 14. As Intel puts it, "finding out whether a distributor was authorized to sell the product is vastly different from negotiating an express license with every single upstream patent holder." *Ibid.*

Lexmark contends (Br. 53-54) that "[n]o retailer or supplier that sues or misleads its customers will long remain in business." *Kirtsaeng* rejected just such reasoning: "a copyright law that can work in practice only if unenforced is not a sound copyright law." 133 S. Ct. at 1366. This is especially so because patent assertion entities already are bringing opportunistic claims in light of *Jazz Photo*. See Intel Br. 14-16; HTC Br. 8-10. Those entities are not constrained by the need to maintain customer relations. See *Commil USA, LLC* v. *Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015).

No reliance interest counsels otherwise. Cf. Resp. Br. 55. Because the Court has never established a domestic-only exhaustion rule, *Kimble* is inapposite. See HTC Br. 4-8. Lexmark certainly cannot assert a

justifiable reliance interest in *Federal Circuit* precedent—otherwise, this Court would be disabled from correcting erroneous Federal Circuit rulings. The Court's decision in *Alice Corp. Pty.* v. *CLS Bank Int'l*, 134 S. Ct. 2347 (2014), rendered invalid tens of thousands of patents—but that was no reason to retain incorrect lower court precedent.

American consumers. Lexmark appears to recognize (Br. 52) that its territorial limitation enables discrimination against U.S. consumers, resulting in higher prices. Nothing in the Patent Act denies American consumers access to genuine goods that U.S. patentees choose to first sell abroad. See Costco Br. 13-14; Prof. Abbott Br. 19-20.

American workers. Finally, Lexmark has no basis for dismissing the implications of its rule for American workers as "fantastical." Resp. Br. 54. Title to goods often passes at either the factory or the port, when buyers take possession. Alain Frecon, *Practical Considerations in Drafting F.O.B. Terms in International Sales*, 3 Int'l Tax & Bus. Law 346, 360 (1986). A decision from this Court adopting domestic exhaustion would thus incentivize manufacturers to move their facilities outside the United States to avoid exhaustion. See Costco Br. 9 n.2.

E. The government's intermediate rule is incorrect.

The government is wrong in asserting that a patentee can preserve its ability to invoke patent remedies, notwithstanding an authorized sale outside the U.S. simply by expressly reserving its U.S. patent rights.

First, the inconsistency between the government's position on the two questions presented is ap-

parent. The government argues that under "longstanding" precedent "restrictions on post-sale use or resale of that article are not enforceable." U.S. Br. 8-12. But, as to international exhaustion, it insists that a U.S. patentee's "*express* reservation of U.S. patent rights at the time of a foreign sale" should "be given effect." *Id.* at 22. The government does not explain why a reservation of rights should be ineffective in an authorized domestic sale but effective when the sale occurs abroad.

Second, the government's argument would not alleviate the adverse policy consequences of Lexmark's position. Rather, rights holders will have every incentive to withhold U.S. rights as a term of sale. See IP Professors Br. 31-32; Med. Device Reprocessors Br. 36. That is especially problematic for supply chains, which rely on agreements made upstream in the distribution network. Intel Br. 19-21.

Third, the government's position has no basis in this Court's precedents. The government reads *Boesch* to hold that, "because a foreign sale of a patented article occurs under foreign law and has no inherent link to the U.S. patent * * *, a lawful foreign sale of a particular article will not *always* exhaust U.S. patent rights in that article." U.S. Br. 23. But that interpretation of *Boesch* rests on misdirection: exhaustion turns on whether an article's sale was *authorized*, not on whether it was "lawful" or not under local law. That is why, as the government elsewhere concedes, *Boesch* does not resolve the international exhaustion question here. *Id.* at 24.

Given the scattered lower court cases with no clear rationale (Pet. Br. 50-51), and the absence of any decision by this Court addressing the interna-

tional exhaustion issue, there is no clear standard that Congress can be said to have adopted in the 1952 Patent Act. Certainly lower court decisions by themselves cannot bind this Court.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
JOHN T. LEWIS
KARIANNE M. JONES*
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

* Admitted only in Minnesota; supervised by principals of the firm.

Counsel for Petitioner

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v.

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Respondent.

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SUPPLEMENTAL BRIEF FOR PETITIONER

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

Counsel for Petitioner

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SUPPLEMENTAL BRIEF FOR PETITIONER

The brief filed by the Solicitor General confirms that both questions presented warrant this Court's review. Lexmark's supplemental brief largely reprises the arguments in its Brief in Opposition, which were addressed in detail in our Reply Brief and again in the government's brief. They provide no basis for denying review.

A. The conditional sale question.

First, the conditional sale issue is plainly important. The United States unequivocally explains that the ruling below "threaten[s] the viability of secondhand markets in patented goods at substantial cost to the public interest." U.S. Br. 14. The *amici* detail these severe policy repercussions at length. Cert. Reply 4-5.

Lexmark's answer (Lexmark Supp. Br. 3) is a reference to the decision below, which in turn asserted that "*Mallinckrodt* has been the governing case law since 1992." Pet. App. 60a. But the validity of *Mallinckrodt* has been uncertain at least since this Court's decision in *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617 (2008). Indeed, the district court *in this case* agreed with and adopted the proposition "that *Quanta* overruled *Mallinckrodt* sub silentio." *Id.* at 151a. And other courts, commentators, and the marketplace as a whole had long viewed *Mallinckrodt* a dead letter. See Cert. Reply 4 (citing relevant portions of *amicus* briefs). There are no legitimate "reliance interests" (Lexmark Supp. Br. 3) to the contrary.[1]

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[1] Lexmark is thus wrong to assert that "this Court has consistently rejected" the government's position on the conditional sale

Second, the United States details how the decision below "conflicts with this Court's decisions" (U.S. Br. 6), most notably this Court's decision in *Univis*. See *id.* at 7, 8, 10, 11. We too explained at length how the lower court's decision is incompatible with *Univis*. See Pet. 14-15; Cert. Reply 7. Lexmark no longer even attempts to refute this reasoning—its supplemental brief does not even cite *Univis*.

Third, Lexmark tries mightily (at 5-7) to invent a disagreement between Impression and the United States regarding the application of the exhaustion doctrine to sales by patentees and licensees. As we explained (Cert. Reply 8-9), an "authorized" sale is the precondition for the application of the first-sale doctrine, and the patentee determines when a sale is authorized.

If the patentee itself sells the good, its decision to make the sale establishes the requisite authorization. If the patentee licenses another to sell the good, the patentee may define the range of transactions in which the licensee is authorized to make a first sale. See Pet. 16-18; Cert. Reply 8-9. A sale complying with those criteria qualifies as "authorized." Following an authorized sale by the patentee or by a licensee, patent exhaustion applies identically, regardless of whether the patentee or licensee sold the good.

The government advances this same position. U.S. Br. 11-14. And that is the clear holding of *General Talking Pictures*. Pet. 17; Cert. Reply 6-7. It is Lexmark, and the majority below, that have blurred

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doctrine. Lexmark Supp. Br. 2. Multiple courts concluded that this Court's ruling in *Quanta endorsed* the government's view. See AMDR Br. 17. At the very least, this Court has never "rejected" it.

the clear line between licensing and authorized sales. Cert. Reply 8-9; U.S. Br. 12-14.

B. The international exhaustion question.

First, this Court would create additional confusion if it were to address the conditional sale doctrine without also addressing international exhaustion. The two questions involve the same legal principle—exhaustion—and the Court's application of that principle to resolve one question will inevitably affect the analysis of the other. As the government put it, "if the Court grants review on the first question presented, it would be particularly appropriate to decide the second as well, so that the regulated community and the lower courts are not left to speculate about the implications for international patent exhaustion of the Court's domestic-exhaustion analysis." U.S. Br. 23.

Second, Lexmark does not contest the United States' conclusion that, "[i]n light of the increasingly transnational nature of global commerce, the question whether and under what circumstances a patentee retains U.S. patent rights when authorizing a foreign sale is important, as the many amicus briefs addressing the issue demonstrate." U.S. Br. 22. Indeed, the *amici* describe in detail the adverse effects of the ruling below. See Cert. Reply 11.

Third, the United States' explanation that "the court of appeals decided th[is] question incorrectly" (U.S. Br. 15) is reason enough to grant review. To be sure, while Impression and the government agree that the Federal Circuit erred, they offer different views of the proper standard. That counsels in *favor* of review, as it ensures the Court will receive argument supporting each of the possible legal rules.

Lexmark's assertion that it "would prevail even under the government's rule" (Lexmark Supp. Br. 12) is nothing short of incredible. According to the government, "U.S. patent rights are exhausted unless they are expressly reserved as part of a foreign sale." U.S. Br. 12. Although Lexmark asserts that it "*did* reserve those rights" (Lexmark Supp. Br. 12), the *en banc* majority's decision rested on "the premise that Lexmark made the foreign sales without communicating a reservation of U.S. patent rights." Pet. App. 63a. Lexmark cannot avoid review by contesting—for the very first time—a key fact relied upon by the court below.

In any event, Lexmark is wrong on the facts. Lexmark's *en banc* brief merely says it targeted "regions," making its cartridges compatible with certain regional printers and using region-specific packaging. ECF 236, at 26. Nothing about such regional targeting shows that Lexmark "*expressly* reserve[d]" its "U.S. patent rights," as the government's position requires. U.S. Br. 15 (emphasis added).

Fourth, Lexmark's argument on the merits relies almost entirely on *Boesch* v. *Graff*. It cites *Boesch* in an attempt to avoid the clear holdings of *Kirtsaeng* and *Quanta*. Lexmark Supp. Br. 8-9. It looks to *Boesch* when addressing pre-Federal Circuit authority. *Id.* at 9. And it invokes *Boesch* to dispute the government's presumptive-exhaustion rule. *Id.* at 11-12.

But Lexmark flatly misunderstands *Boesch*. As the United States correctly observes, the *Boesch* "Court had no occasion to decide whether, or under what circumstances, a foreign sale that is made or authorized by the U.S. patent holder * * * will exhaust U.S. patent rights"—because there was no such authorization in that case. U.S. Br. 17-18. See

also Cert. Reply 12. And the dissent below agreed. Pet. App. 125a-126a. *Boesch* therefore does not undermine the clear common-law rule identified by *Kirtsaeng*, *Quanta*, and scores of lower-court decisions.[2]

Once *Boesch*'s irrelevance is clarified, Lexmark has no means of escaping the plain holding of *Kirtsaeng*. That decision was clear on its face: the Court held that the common-law exhaustion principle applies without regard to the country of sale—and nothing about that reasoning was unique to copyright. Cert. Reply 12. The order in which the Court "examined" the relevant considerations at issue in *Kirtsaeng* (Lexmark Supp. Br. 8) is wholly immaterial to its articulation of the common law. And the absence from the Patent Act of any provision limiting the common law rule means that the common law rule governs. Pet. 24-27; Cert. Reply 12.

CONCLUSION

The petition for a writ of certiorari should be granted.

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[2] *Daimler Manufacturing Co.* v. *Conklin*, 170 F. 70, 72 (2d Cir. 1909), is not to the contrary. See Lexmark Supp. Br. 9. There, similar to *Boesch*, the defendant purchased a car from "the holder of European patent rights"—which was "*distinct from* the U.S. patent-holding company." Pet. App. 93a. As Judge Dyk explained in dissent, the "foreign sale was not authorized by [the] U.S. patent holder." Pet. App. 127a. Indeed, just 11 years later, the Second Circuit distinguished *Daimler* as a case in which there was "no participation whatever by the owner of the patent." *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920). *Curtiss Aeoroplane*, moreover, explained that foreign sales *do* exhaust U.S. patent rights—a decision wholly incompatible with Lexmark's position to the contrary. *Id.* at 78. See Pet. 28-30 (discussing cases).

Respectfully submitted.

ANDREW J. PINCUS
Counsel of Record
PAUL W. HUGHES
MATTHEW A. WARING
Mayer Brown LLP
1999 K Street, NW
Washington, DC 20006
(202) 263-3000
apincus@mayerbrown.com

EDWARD F. O'CONNOR
Avyno Law
6345 Balboa Blvd.
Building 1
Encino, CA 91316
(818) 654-8840

Counsel for Petitioner

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SUPPLEMENTAL BRIEF OF RESPONDENT

TIMOTHY C. MEECE
V. BRYAN MEDLOCK, JR.
JASON S. SHULL
AUDRA C. EIDEM HEINZE
BANNER & WITCOFF, LTD.
Ten South Wacker Dr.
Chicago, IL 60606
(312) 463-5000

CONSTANTINE L. TRELA, JR.*
ROBERT N. HOCHMAN
SIDLEY AUSTIN LLP
One South Dearborn Street
Chicago, IL 60603
(312) 853-7000
ctrela@sidley.com

STEVEN B. LOY
STOLL KEENON OGDEN PLLC
300 W. Vine Street
Suite 2100
Lexington, KY 40507
(859) 231-3000

BENJAMIN BEATON
JOSHUA J. FOUGERE
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005
(202) 736-8000

Counsel for Respondent

November 1, 2016 * Counsel of Record

[Additional Counsel on Inside Cover]

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

D. Brent Lambert
Lexmark Int'l, Inc.
740 W. New Circle Rd.
Lexington, KY 40550
(859) 232-2000

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SUPPLEMENTAL BRIEF

The government identifies no conflict, confusion, or error in the court of appeals' exhaustive analysis of the statute and caselaw. That decision affirmed settled law enforcing limits on sales of less than all of a patentee's rights. Far from "disregard[ing] this Court's holdings," U.S. Br. 9, Judge Taranto's opinion for the 10-judge majority addressed each holding raised by the parties to determine what this Court has "actually decided" concerning patent exhaustion. Pet. App. 39a-40a.

That careful reasoning receives scant attention in the government's brief. Like Impression's petition, it offers no reason why this Court should intervene. Indeed, the government's brief does not dispute Lexmark's key propositions:

- the text of the Patent Act controls exhaustion;
- no legally rational difference restricts patent remedies following patentee sales but not licensee sales;
- the positions advanced by Impression have been raised and rejected numerous times before this Court;
- no precedent supports Impression's argument for automatic worldwide exhaustion; and
- this Court's interpretation of the Copyright Act in *Kirtsaeng* does not extend to the Patent Act.

The call for certiorari, therefore, rests on misinterpreted dicta and misdirected policy preferences. Disagreement with a lopsided majority of the en banc

Federal Circuit on a question of patent law, however, is not enough to invoke this Court's review. See, *e.g.*, *Shodadpuri* v. *United States*, 135 S. Ct. 2350 (2015) (declining to review en banc Federal Circuit decision). Fully mindful of its dual responsibilities to follow this Court's precedents and articulate nationwide patent-law rules, U.S. Br. 23, the court of appeals did both. The petition should be denied.

I. THE DOMESTIC-SALES QUESTION DOES NOT MERIT REVIEW.

A. The Government Identifies No Basis For Review.

The government's brief disregards several reasons why certiorari is unwarranted. First, the decision's careful analysis implicates no conflict with precedent. Opp. 8-13. Like Impression, the government declines to actually address the court of appeals' analysis, instead simply declaring a "conflic[t]." See, *e.g.*, U.S. Br. 6-8. But a string-citation of nine cases, without analysis or even parentheticals, cannot overcome the attention Judge Taranto's opinion gave each of these decisions. Remarkably, the government simply repeats the *identical* arguments it submitted below. See U.S. En Banc Br. 5-10 (ECF No. 235). The government, however, cannot simply pretend that ten Article III judges did not painstakingly refute those arguments; to invoke this Court's jurisdiction, it must explain *why* those judges erred. Pet. App. 26a-56a.

Second, the government has repeatedly raised, and this Court has consistently rejected, this invitation to rewrite settled exhaustion principles. Opp. 16-18. The government never acknowledges its failures, dating to the 1930s, to persuade any court or Congress to adopt its view of automatic exhaustion. That silence is telling. And the resulting stability in the law is

critical to the marketplace. Given the reliance interests at stake, to change course now requires a special justification not offered here. See *Kimble* v. *Marvel Entm't, LLC*, 135 S. Ct. 2401, 2410 (2015).

Third, Impression's misplaced policy concerns are not implicated by the stipulated facts of this case. Opp. 18-20. The government's two half-hearted paragraphs on the subject, U.S. Br. 14-15, merely parrot Impression's dire assertions about second-hand markets, offering no explanation of how such markets developed despite the settled law in this area, Opp. 18-20. The assertion that "[t]his case accordingly provides a suitable vehicle," U.S. Br. 14-15, is wrong and beside the point where the case does not present the imagined policy concerns in the first place. The court of appeals carefully considered these same supposed concerns and found them absent from the record. Pet. App. 59a-63a. If these speculative consequences were suddenly to materialize, they can be addressed when actually raised in another case.

The government brief's perfunctory treatment is particularly curious given its longstanding and well-known disagreement with settled exhaustion doctrine. That position was reiterated in the government's en banc brief and in Impression's petition. See Pet. 18-21. Lexmark explained how these arguments counseled *against* certiorari in light of the court of appeals' comprehensive rejection of the government's views. Opp. 8-18. By failing to grapple with the central questions framed in Judge Taranto's in-depth opinion or Lexmark's opposition, the government's brief serves only to highlight the flaws in Impression's petition.

B. The Court Of Appeals' Decision Is Correct.

Certiorari is also unwarranted because neither Impression nor the government has identified any error in the reasoning below. The government offers four reasons why the court of appeals' "justifications for its ... holding are not persuasive," U.S. Br. 8-14, but all are baseless.

First, the government faults the court of appeals for "disregard[ing] this Court's holdings based on its own assessment of Section 271(a)'s most natural meaning." U.S. Br. 9. The government accepts the statutory starting point for the court of appeals' analysis—that infringement turns on whether an alleged infringer proceeds "without authority." *Id.* The government further admits that "no discrete [statutory] provision ... squarely forecloses the Federal Circuit's approach." *Id.* The court of appeals, however, understood that an "exhaustion rule should fit rather than contradict the statutory text," and considered at length whether precedent required the government's counter-textual rule. See Pet. App. 41a-56a; Opp. 8-16. That the government advocates an interpretation that contradicts the court of appeals' "assessment of Section 271(a)'s most natural meaning"—without offering *any* competing understanding of the text—undercuts rather than supports the case for certiorari.

Second, the government criticizes the court of appeals' recognition that patentees cannot *expand* their rights by attaching conditions or restrictions that are "otherwise unlawful." U.S. Br. 9-10. This was mistaken, the government says, because "[t]he logic and reasoning of [the relevant] decisions ... turned on the extent of the patent grant, not on the particular type of post-sale restriction at issue." *Id.* But that is precisely

what the court of appeals stated: this "Court did not rule that *all* restrictions on a patentee's sale were ineffective to preserve the patentee's patent-law rights. Instead, it called for an inquiry—in accord with what *Mallinckrodt* later said—into whether a patentee's restrictions were otherwise improper, as by 'extend[ing] the scope of its patent monopoly.'" Pet. App. 53a-54a (citing the same case the government cites). The government's critique is unfounded.

Third, the government claims that the court of appeals "misconstrued this Court's occasional references to 'unconditional sales.'" U.S. Br. 10. The court of appeals explained why the government's view is inconsistent with how this Court has used the terminology. The majority also made clear that, "[i]n any event," that terminology "is just one part of the analysis." Pet. App. 43a n.9. Yet, again, the government simply ignores the court of appeals' direct response to the same argument below.

Finally, the government spills considerable ink trying to explain that the court of appeals "misinterpreted this Court's decisions" by reading them to permit limitations on post-sale use when sales are made by licensees rather than by patentees. U.S. Br. 11-14. Claiming that the court of appeals "misread[d]" *General Talking Pictures*, the government insists that the court was wrong to characterize the government's position as giving less control to a practicing-entity patentee than to a non-practicing-entity patentee. *Id.* According to the government, there is actually no difference between the two. *Id.* at 13-14.

This contention is directly contrary to the government's prior positions. Before the court of appeals, the government embraced the patentee-licensee distinction it now rejects. The majority expressly relied on this position, stating that "Impression and the

government contend that ... Lexmark automatically lost its patent rights—simply because Lexmark sold the Return Program cartridges itself, subject to the same communicated restriction, rather than having left the manufacture and sale to others under license." Pet. App. 26a. Likewise, in its brief supporting certiorari in *Quanta Computer* v. *LG Electronics*, the government conceded that

> Although there is a seeming anomaly in allowing a patentee to achieve indirectly—through an enforceable condition on the licensee—a limitation on use or resale that the patentee could not itself impose on a direct purchaser, the distinction is a necessary and explicable result of the Court's decision in *General Talking Pictures*.

Br. for the U.S. as Amicus Curiae, at 14, *Quanta*, No. 06-937 (Aug. 2007). Despite the government's shifting positions, however, the exhaustion doctrine as reaffirmed below has consistently treated selling and licensing patentees the same way.

The government's latest position is also illogical. The government accepts the premise that a patentee *can* decide not to convey all of its rights and authority to licensees, including by requiring the imposition of a single-use/no-resale restriction. U.S. Br. 13. But, the government continues, a sale by the licensee that properly conveys only the limited rights granted in the license will fully exhaust *all* patent rights, including those that were not conveyed; this would preclude any subsequent infringement claim, even if the licensee's customer knowingly exceeded its limited authority. *Id.* In the government's view, the only situation in which the exhaustion doctrine would *not* preclude an infringement claim is if the licensee ignored the patentee's limited-authority conveyance and sold the product without those restrictions. *Id.* But *General*

Talking Pictures does not support the government's belated and backwards effort to bend the decision to its preferred automatic exhaustion rule. See, *e.g.*, *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 305 U.S. 124, 128-33 (1938) (Black, J., dissenting) (explaining that the decision "permits the *patentee*—by virtue of his contract with the manufacturer—to restrict the uses to which this purchaser and owner may put" the product) (emphasis added).[1]

The court of appeals correctly understood that the government's position would "disadvantage [selling patentees] vis-à-vis patentees who sell through licensees." U.S. Br. 13-14. That the government now articulates a contrary rule—one likewise with "no sound reason, and no Supreme Court precedent, requiring" it—is no basis for certiorari. Pet. App. 26a.

II. THE FOREIGN-SALES QUESTION DOES NOT MERIT REVIEW.

As to foreign sales, the government makes two things clear. First, Impression's argument for *automatic* worldwide exhaustion is both novel and wrong. Second, the government's preference for *presumptive* worldwide exhaustion is a policy view not supported by precedent or implicated by these facts.

A. The Government Rejects Impression's Arguments For Certiorari.

Impression's petition contends certiorari is warranted because the decision below is inconsistent

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[1] Moreover, under the government's rule, a purchaser who buys from such a licensee without knowledge of any limitation on the seller's authority would be an infringer, while a purchaser who knows of and ignores such limitations would not. U.S. Br. 13. The government offers no rationale for this result, nor is there any.

with precedent—specifically, this Court's decisions in *Kirtsaeng* and *Quanta*, and "over a century of common-law rulings" in lower courts. Pet. 24. The government's brief squarely contradicts Impression.

1. *Kirtsaeng*'s copyright ruling was the centerpiece of Impression's case below and in this Court. The government, however, agrees with Lexmark and the court of appeals that *Kirtsaeng*'s interpretation of the Copyright Act does not "compe[l] an analogous rule of automatic international exhaustion in the patent context." U.S. Br. 21 (citing *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013)). Echoing Lexmark, Opp. 25, the government explains that "the *Kirtsaeng* Court's analysis of the text, context, and history of [§ 109] does not illuminate the proper international-patent-exhaustion rule." U.S. Br. 21-22. Impression's contention that *Kirtsaeng* "identified a *general* exhaustion principle" and "then went on to consider whether the text and structure of the Copyright Act somehow limited that general principle," Reply Br. 12, is backwards: the Court examined the statute's "text, context, and history" and then "found *additional* support ... in the common la[w]." U.S. Br. 21-22 (emphasis added).

The government offers a further reason why *Kirtsaeng* does not control. "In the patent context ... *Boesch* demonstrates that sales lawfully made in a foreign country do not automatically trigger exhaustion." U.S. Br. 22. As the Solicitor General explained to this Court in *Quanta*, *Boesch* v. *Graff*, 133 U.S. 697 (1890), "made clear" "that a sale under a foreign patent in that foreign country does not exhaust the patent rights under the corresponding United States patent." Br. for the U.S. as Amicus Curiae, at 9 n.2, *Quanta*, No. 06-937 (Nov. 2007). Given this Court's

precedent, see Pet. App. 81a-84a, ancient common law is inapplicable, *contra* Pet. 24-25, 28 n.4.

2. As for Impression's mistaken reliance on *Quanta* (Pet. 30-31), the government's silence is again telling: its brief never even cites *Quanta* on the foreign-sales question. The reason is simple: "*Quanta* never mentioned *Boesch*"—much less tacitly overruled it. Opp. 24-25. The government's approach confirms that Impression's continued and puzzling invocation of *Quanta*, Reply Br. 12, without even engaging Lexmark's rebuttal, Opp. 24-25, cannot justify certiorari.

3. Finally, the government agrees with Lexmark that "the Federal Circuit correctly recognized that foreign sales do not *automatically* exhaust U.S. patent rights." U.S. Br. 20. The petition purported to identify a "consistent line of patent cases indicating" that an authorized foreign sale "has long been understood to exhaust U.S. patent rights." Pet. 27. Lexmark's Opposition (at 22-24) and the decision below (Pet. App. 90a-97a), however, thoroughly refuted that position: numerous decisions "followed *Boesch* in rejecting automatic worldwide exhaustion." Opp. 22. Only one—*Holiday*, an 1885 district court decision that pre-dated *Boesch*—supported Impression's rule. *Id.* at 24; Pet. App. 97a.

The government's brief (at 18) highlights several decisions that Impression's reply (at 12-13) *concedes* transferred foreign but not U.S. patent rights. And Impression never addressed other decisions like *Daimler Manufacturing Co.* v. *Conklin*, 170 F. 70, 72 (2d Cir. 1909), that directly considered and rejected its position. Pet. App. 93a-94a. Impression's claim of a "consistent line" of foreign-exhaustion holdings, therefore, has been thoroughly discredited. The government's position confirms that Impression's second

question falls far short of this Court's certiorari standard.

B. The Government Offers No Independent Basis For Review.

The government nevertheless recommends review. But it attacks a straw man; the court below did *not* "hol[d] that foreign sales *never* trigger exhaustion of U.S. patent rights." U.S. Br. 15 (emphasis added). See also *id.* at 6, 20. Neither those words nor that principle appears anywhere in the opinion, which recognized the opposite: a patentee's foreign sale *could* "gran[t] permission for otherwise-infringing U.S. activities." Pet. App. 94a (discussing *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920)). The extreme position the government ascribes to the court of appeals was not necessary to Lexmark's position or to the decision in *Jazz Photo*—and is not the rule under review.[2]

Aside from this mischaracterization, however, the government's analysis underscores why certiorari is unwarranted—given its *agreement* with Lexmark and the court of appeals that:

- the statute requires patentee "authority" to exhaust, U.S. Br. 13, 16; Opp. 22, 27-28;
- patent rights are territorial rather than global under the Paris Convention, U.S. Br. 15-16; Opp. 26, 29;
- a foreign sale does not implicate U.S. patent rights, which offer no extraterritorial protection, U.S. Br. 16-17; Opp. 28-29;

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[2] *See, e.g.*, Lexmark En Banc Br. 22 (ECF No. 239) ("That a foreign sale does not *automatically* exhaust U.S. patent rights does not mean that it may *never* do so.").

- *Boesch* held that foreign sales do not necessarily exhaust U.S. patent rights, U.S. Br. 17; Opp. 21-22;
- lower courts have enforced U.S. patent rights notwithstanding prior foreign sales, U.S. Br. 18; Opp. 22-24;
- trade agreements are "predicated on the assumption" that sales abroad do *not* automatically exhaust U.S. patent rights, U.S. Br. 18-20; Pet. App. 87a-89a;
- *Kirtsaeng* does not control, U.S. Br. 21-22; Opp. 25-27;
- "nothing in the nature of a foreign sale logically precludes a U.S. patentee from conveying his U.S. rights as part of the foreign transaction," U.S. Br. 20; see Opp. 20.

The government's remaining *dis*agreement with the court below is gossamer-thin, abstract, and unworthy of this Court's review.

The government tries to cabin *Boesch* to foreign sales *unauthorized* by U.S. patentees. U.S. Br. 17-18. But that purported restriction is absent from *Boesch*'s reasoning. And it contradicts the government's position in *Quanta*: "a sale under a foreign patent in that foreign country does not exhaust the patent rights under the corresponding United States patent." *Supra* at 8.

The policy of *presumptive* extraterritorial exhaustion the government now advances, moreover, represents (at best) a *post hoc* reinterpretation of precedent. The lower court decisions applying *Boesch* do not actually articulate the government's preferred presumption. U.S. Br. 18. If anything, the government's own explanation of patent law's territoriality,

id. at 15-20, supports the opposite rule: because a sale abroad "does not implicate or require any authority under the U.S. patent," *id.* at 16, there is no reason to presume the parties intended any effect on U.S. patent rights.[3]

Given the limits of the ruling below, the government's objection shrinks further still. Impression advanced no implied-license defense, Pet. App. 63a, which could mitigate practical concerns, cf. *Kirtsaeng*, 133 S.Ct. at 1389 (Ginsburg, J., dissenting) (implied license may mitigate effects of territorially-limited rights). And Lexmark would prevail even under the government's rule. Contrary to the government's suggestion that Lexmark did not reserve U.S. patent rights, U.S. Br. 23, the "only relevant evidence indicates Lexmark" *did* reserve those rights, Lexmark En Banc Br. 26 (ECF No. 239). That question, like the implied-license defense, was not litigated below. Rather than offering a clean vehicle, therefore, this case does not even implicate the critical questions—authorization or reservation of rights—under the government's proposed rule. A case that presented these key questions would be a far more suitable vehicle for the Court's review.

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[3] Similarly arbitrary is the government's view that a sale abroad must transfer all U.S. rights or none at all. U.S. Br. 17 n.3. No precedent or logic prevents a patentee from authorizing a buyer to use, but not import for resale, a foreign-sold product in the United States.

CONCLUSION

For these reasons, and those in the Opposition, the Court should deny the petition.

Respectfully submitted,

TIMOTHY C. MEECE
V. BRYAN MEDLOCK, JR.
JASON S. SHULL
AUDRA C. EIDEM HEINZE
BANNER & WITCOFF, LTD.
Ten South Wacker Dr.
Chicago, IL 60606
(312) 463-5000

CONSTANTINE L. TRELA, JR.*
ROBERT N. HOCHMAN
SIDLEY AUSTIN LLP
One South Dearborn St.
Chicago, IL 60603
(312) 853-7000
ctrela@sidley.com

STEVEN B. LOY
STOLL KEENON OGDEN PLLC
300 W. Vine Street
Suite 2100
Lexington, KY 40507
(859) 231-3000

BENJAMIN BEATON
JOSHUA J. FOUGERE
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005
(202) 736-8000

D. BRENT LAMBERT
LEXMARK INT'L, INC.
740 W. New Circle Rd.
Lexington, KY 40550
(859) 232-2000

Counsel for Respondent

November 1, 2016

* Counsel of Record

ECORD
AND
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No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC., PETITIONER

v.

LEXMARK INTERNATIONAL, INC.

ON WRIT OF CERTIORARI
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FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING REVERSAL IN PART AND VACATUR IN PART

NOEL J. FRANCISCO
Acting Solicitor General
Counsel of Record
JOYCE R. BRANDA
Acting Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
ELIZABETH B. PRELOGAR
Assistant to the Solicitor General
MARK R. FREEMAN
MELISSA N. PATTERSON
Attorneys

Department of Justice
Washington, D.C. 20530-0001
SupremeCtBriefs@usdoj.gov
(202) 514-2217

QUESTIONS PRESENTED

1. Whether a U.S. patent owner may invoke patent law to enforce restrictions on the use or resale of a patented article after the first authorized sale of the article in the United States.

2. Whether and under what circumstances a U.S. patent owner may authorize the sale of a patented article in a foreign country, either under a foreign patent or otherwise in accordance with foreign law, while reserving its exclusive rights under U.S. patent law.

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IMPRESSION PRODUCTS, INC., PETITIONER

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BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING REVERSAL IN PART AND VACATUR IN PART

INTEREST OF THE UNITED STATES

The questions presented in this case concern whether and under what circumstances a patentee can retain U.S. patent rights in a particular article after authorizing the sale of that article either in the United States or abroad. Those questions implicate the expertise and responsibilities of several federal agencies and components. At the invitation of the Court, the United States filed a brief as amicus curiae at the petition stage.

STATEMENT

1. A U.S. patent confers on the patentee "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. 154(a)(1). A person who does any

of those acts "without authority" from the patentee infringes the patent. 35 U.S.C. 271(a). Direct patent infringement is a strict-liability tort; neither scienter nor contractual privity is necessary for liability. See *Commil USA, LLC* v. *Cisco Sys., Inc.*, 135 S. Ct. 1920, 1926 (2015).

For more than 160 years, this Court has recognized a principle of patent "exhaustion" that "limits a patentee's right to control what others can do with a[] [patented] article" after it has been sold. *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013); see *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 549-550 (1853). Under the exhaustion doctrine, also known as the "first sale" doctrine, "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008). The patentee therefore cannot invoke patent law to enforce restrictions on the post-sale use or resale of that item. See *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 514, 516 (1917). Instead, the enforceability of downstream restrictions after an authorized sale arises only "as a question of contract, and not as one under the inherent meaning and effect of the patent laws." *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895).

Patent rights are further circumscribed by the territorial boundaries of the United States. The statutory provisions that delineate both the patent grant and the conduct that constitutes infringement incorporate that geographic limitation. See 35 U.S.C. 154(a)(1) (patentee enjoys exclusive rights "throughout the United States"); 35 U.S.C. 271(a) (defining infringement to include specified conduct "within the United

States"). No authority under a U.S. patent is required to make, use, or sell the patented invention outside the United States. See, *e.g.*, *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 527 (1972). Rather, foreign law governs that conduct, and a U.S. patentee who desires to control the foreign manufacture or sale of its invention therefore must "obtain[] and enforc[e] foreign patents." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 441, 456 (2007).

2. a. Respondent owns several U.S. patents related to printer toner cartridges, which respondent sells both in the United States and abroad. Pet. App. 9a-10a. As relevant here, all of the U.S. sales and some of the foreign sales included a "single-use/no-resale restriction," which prohibited buyers from reusing the cartridges after the toner ran out and from transferring the cartridges to anyone but respondent. *Id.* at 10a. The parties have stipulated that the restriction is "an express and enforceable contractual agreement." *Id.* at 11a (citation omitted).

Petitioner acquired spent cartridges that respondent had initially sold both here and abroad and resold them in the United States after they had been replenished with ink. Pet App. 10a. Based on that conduct, respondent sued petitioner for direct and contributory patent infringement, alleging (i) a violation of the single-use/no-resale restriction on cartridges originally sold in the United States and (ii) unlawful importation of the cartridges originally sold abroad. *Id.* at 12a-13a.

b. The district court dismissed respondent's infringement claim involving cartridges originally sold in the United States, holding that the initial authorized sale of those cartridges exhausted respondent's

patent rights in them. Pet. App. 140a-155a. The court acknowledged that, in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (1992), the Federal Circuit had permitted a patentee to invoke patent law to enforce a single-use restriction following an authorized sale. Pet. App. 146a-147a. The court concluded, however, that *Mallinckrodt* was inconsistent with this Court's exhaustion decisions. *Id.* at 154a.

The district court refused to dismiss the infringement claims involving cartridges originally sold abroad. Pet. App. 156a-169a. The court relied on the Federal Circuit's holding in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (2001) (*Jazz Photo*), cert. denied, 536 U.S. 950 (2002), that a foreign sale authorized by the U.S. patentee does not exhaust U.S. patent rights. Pet. App. 159a.

The parties then stipulated to a final judgment in petitioner's favor as to cartridges respondent had sold within the United States, and in respondent's favor as to cartridges respondent had sold abroad. Pet. App. 17a-18a.

c. Both parties appealed, Pet. App. 18a, and the Federal Circuit sua sponte ordered the case heard en banc, *id.* at 136a-139a. The en banc court of appeals held that neither the domestic nor the foreign sales had exhausted respondent's patent rights in the cartridges. *Id.* at 1a-104a.

The Federal Circuit reaffirmed *Mallinckrodt*'s holding that a patentee may sell an article in the United States while retaining patent-law rights to enforce "clearly communicated, otherwise-lawful restriction[s] as to post-sale use or resale." Pet. App. 26a; see *id.* at 26a-63a. The court stated that the "exhaustion doctrine in the Patent Act must be understood as an in-

terpretation of § 271(a)'s 'without authority' language." *Id.* at 24a. The court viewed it as improper "to treat a sale as conferring on the buyer the very authority that is being denied through clearly communicated restrictions." *Id.* at 40a-41a.

The Federal Circuit read this Court's exhaustion decisions to hold that patent rights are exhausted only when initial sales are "unconditional," meaning unaccompanied by any restrictions, Pet. App. 41a-43a, or when a purported restriction "exceed[s] the legitimate scope of patent rights," *id.* at 27a-28a (citing *Mallinckrodt*, 976 F.2d at 704); see *id.* at 44a-56a. The court further understood this Court's decisions to permit enforcement of post-sale restrictions accompanying authorized sales made by a licensee. *Id.* at 41a-49a. The court concluded that "there is no sound reason, and no Supreme Court precedent, requiring a distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." *Id.* at 26a.

The Federal Circuit also reaffirmed *Jazz Photo*'s holding that foreign sales do not exhaust U.S. patent rights. Pet. App. 63a-103a. The court recognized that "an express or implied license might be found based on the circumstances" of a particular sale, *id.* at 67a, but held that a foreign sale does not conclusively or presumptively confer any authority under the U.S. patent to import, use, or resell that article within the United States, *id.* at 64a. The court held that *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), in which this Court interpreted a statutory provision that governs copyright exhaustion, did not

require a rule of automatic international patent exhaustion. Pet. App. 67a-75a.

Judge Dyk, joined by Judge Hughes, dissented. Pet. App. 105a-135a. The dissenting judges understood this Court's exhaustion decisions to foreclose using patent law to enforce post-sale restrictions following an authorized sale in the United States. *Id.* at 105a; see *id.* at 106a-125a. They would have further held that a foreign sale authorized by the U.S. patentee does not categorically exhaust U.S. patent rights, but should trigger exhaustion if those rights are not "explicitly reserve[d]" at the time of the foreign sale. *Id.* at 125a; see *id.* at 125a-135a.

SUMMARY OF ARGUMENT

An authorized sale of a patented article in the United States exhausts all patent rights in that article and renders post-sale restrictions unenforceable in patent-infringement suits. A U.S. patentee who authorizes sales of the patented articles abroad, by contrast, may reserve his U.S. patent rights provided he does so expressly at the time of sale.

I. A. Beginning in 1853, this Court has repeatedly held that the first authorized U.S. sale of a particular patented article frees that article from the patent monopoly. That rule prevents the practical difficulties that would arise if a patentee could demand royalties for the use or resale of articles embodying its invention at multiple downstream points in the channels of commerce. With one short-lived exception, the Court has consistently rejected patentees' attempts to use infringement actions to enforce restrictions on post-sale use or resale. Under a straightforward application of those decisions, respondent cannot rely on the

patent laws to enforce a single-use/no-resale restriction on the cartridges it sold in the United States.

B. The Federal Circuit erred in viewing the exhaustion doctrine as merely a default rule that patentees can override when authorizing U.S. sales. The court relied on 35 U.S.C. 271(a), which was enacted in 1952 and defines patent infringement to include using or selling a patented invention "without authority" from the patentee. The court of appeals believed that a downstream purchaser who contravenes the patentee's express directive necessarily infringes under that provision. But Section 271(a) simply codified the traditional understanding of what constitutes patent infringement, which this Court has evidently viewed as compatible with its longstanding exhaustion jurisprudence. The court of appeals was also wrong to believe that its ruling was necessary to avoid creating an unwarranted distinction between sales made by the patentee and sales made by an authorized licensee. If a U.S. sale is authorized, *no* restrictions on downstream use or resale may be enforced in a patent-infringement action, whether the sale is consummated by the patentee himself or by his licensee.

II. A. With respect to the cartridges that respondent sold outside this country, the Court should apply a rule of presumptive international exhaustion, under which a foreign sale authorized by the U.S. patentee exhausts U.S. patent rights unless those rights are expressly reserved. Lower courts have coalesced around that rule, which appropriately reconciles the territorial nature of patent law with a purchaser's traditional entitlement to assume that an unrestricted sale conveys all of a seller's rights in the article sold.

B. The Court should reject petitioner's proposed rule of automatic international patent exhaustion. A foreign sale of a patented article occurs under the authority of a foreign patent or otherwise in accordance with foreign law, and it need not account for any separate exclusive rights in the United States conferred by a U.S. patent. Although no legal principle *prevents* a U.S. patentee from relinquishing his U.S. monopoly as part of a foreign sale (presumably at a price calibrated to reward him for his rights under both foreign and U.S. law), such a sale does not depend on the U.S. rights and so should not *automatically* exhaust them. And Congress has approved free trade agreements that assume that exhaustion principles do not preclude enforcement of express reservations of U.S. patent rights accompanying foreign sales.

C. The Court should also reject the rule, advocated by respondent and adopted by the court below, that foreign sales can *never* exhaust the seller's U.S. patent rights. Nothing in the nature of a foreign sale logically precludes a U.S. patentee from conveying his U.S. rights as part of the foreign transaction. A foreign sale should be understood to have that effect unless the patentee expressly reserves his U.S. rights at the time of sale.

ARGUMENT

I. AN AUTHORIZED SALE IN THE UNITED STATES FULLY EXHAUSTS U.S. PATENT RIGHTS IN THAT ARTICLE, SUCH THAT RESTRICTIONS ON POST-SALE USE OR RESALE ARE NOT ENFORCEABLE UNDER PATENT LAW

For more than 160 years, this Court has held that, once a patentee authorizes the sale of a particular

patented article in the United States, the patent laws do not constrain the subsequent use or resale of that article. Under those decisions, respondent's single-use/no-resale restriction may not be enforced against downstream purchasers in patent-infringement suits following an authorized domestic sale. The Federal Circuit's decision misreads those precedents and would substantially erode the exhaustion doctrine.

A. Under This Court's Decisions, The Patent-Exhaustion Doctrine Delimits The Exclusive Rights Granted By Patent Law

Patent law confers on the patentee the "right to exclude others from making, using, offering for sale, or selling the invention." 35 U.S.C. 154(a). Since 1853, this Court has recognized that exhaustion principles limit that right to exclude. See *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 549-550 (1853). Once a patentee authorizes the sale of a particular patented article, that article "passes outside" the patent's coverage "and is no longer under the protection of the act of Congress." *Id.* at 549. Because the authorized sale "exhausts the monopoly in that article," a patentee "may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942) (*Univis*).[1] "[A] long line of this Court's decisions" treating the exhaustion doctrine as "delimiting the scope of the patent grant" accordingly "condemn[s]" a patentee's

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[1] Because the exhaustion doctrine "restricts a patentee's rights only as to the particular article sold," however, an authorized sale "does not allow the purchaser to make new copies of the patented invention." *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1764, 1766 (2013) (citation and internal quotation marks omitted).

attempt to invoke the patent laws to enforce restrictions on post-sale use or resale. *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964) (*Aro*) (plurality opinion); see *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013); *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) (*Quanta*); *Boston Store* v. *American Graphophone Co.*, 246 U.S. 8, 25 (1918); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 508-518 (1917); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895); *Hobbie* v. *Jennison*, 149 U.S. 355, 361-363 (1893); *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873).

This Court has described "[t]he inconvenience and annoyance to the public" if patent rights are not exhausted by the first authorized sale as "too obvious to require illustration." *Keeler*, 157 U.S. at 667. Absent exhaustion, a patentee could demand royalties for the use or resale of articles embodying its invention at multiple downstream points in the channels of commerce, long after the first authorized sale in the United States. That result would threaten the viability of second-hand markets in patented goods at substantial cost to the public interest, with no reason to think the ensuing wealth transfer to the patentee would promote the purposes that the Patent Clause serves. See U.S. Const. Art. I, § 8, Cl. 8; *Motion Picture Patents*, 243 U.S. at 511 ("[T]his court has consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is 'to promote the progress of science and useful arts.'") (citation omitted). The Court has further explained that "the purpose of the patent law is fulfilled with respect to any particular article when the

patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *Univis*, 316 U.S. at 251; see *Bowman*, 133 S. Ct. at 1766 (quoting *Univis*, 316 U.S. at 251).

This Court has repeatedly applied the exhaustion doctrine to reject patentees' use of patent-infringement suits to enforce restrictions on post-sale use or resale. In *Univis*, for example, the patentee authorized the sale of lens blanks to wholesalers and retailers, but imposed a condition that the purchasers could thereafter sell the lenses "only at prices prescribed by the [patentee]." 316 U.S. at 245. This Court observed that the initial authorized sales "relinquish[ed] * * * the patent monopoly with respect to the article sold," notwithstanding the patentee's attempt to retain control over resale prices. *Id.* at 249. Because that post-sale restriction "derive[d] no support from the patent," the Court concluded that it "must stand on the same footing * * * as like stipulations with respect to unpatented commodities." *Id.* at 251. Similarly in *Boston Store*, this Court refused to enforce a restriction on resale prices accompanying an authorized sale. 246 U.S. at 25-26. The Court emphasized that "one who ha[s] sold a patented machine and received the price, and ha[s] thus placed the machine so sold beyond the confines of the patent law, c[an] not, by qualifying restrictions as to use, keep under the patent monopoly a subject to which the monopoly no longer applie[s]." *Id.* at 25.

The lone exception to this Court's treatment of the exhaustion doctrine as a limit on the scope of the patent right was *Henry* v. *A.B. Dick Co.*, 224 U.S. 1

(1912). In allowing a patentee to invoke patent law to enforce use restrictions following an authorized sale, the Court in *A.B. Dick* emphasized that the patent "monopoly extends to the right of making, selling and using, and these are separable and substantial rights." *Id.* at 27-28. The Court concluded that the "right to sever ownership and use is deducible from the nature of a patent monopoly," so that "[t]he property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose." *Id.* at 24-25.

A.B. Dick was overruled just five years later, however, by *Motion Picture Patents*, 243 U.S. at 518. The Court there described *A.B. Dick* as proceeding from "the argument that, since the patentee may withhold his patent altogether from public use he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it." *Id.* at 514. The Court specifically rejected that rationale, explaining that "[t]he defect in th[at] thinking" lay in its "failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding and rights which he may create for himself by private contract." *Ibid.*

Under this Court's longstanding approach, so long as a patentee authorizes the domestic sale of a patented article, that sale "carrie[s] [the article] outside the monopoly of the patent law," and restrictions on post-sale use or resale are not enforceable through an infringement suit. *Motion Picture Patents*, 243 U.S. at 516. Since *A.B. Dick* was overruled in 1917, this Court has rejected every attempt to invoke patent law

to control the use or resale of an article after the first authorized sale in the United States. See, *e.g.*, *Quanta*, 553 U.S. at 637; *Univis*, 316 U.S. at 244, 249-252; *Boston Store*, 246 U.S. at 25; *Motion Picture Patents*, 243 U.S. at 506-507, 516. Under a straightforward application of those precedents, exhaustion principles foreclose respondent's reliance on the patent laws to enforce a single-use/no-resale restriction against downstream purchasers of the cartridges that respondent sold in this country.

B. The Federal Circuit's Understanding Of Patent Exhaustion Conflicts With This Court's Decisions

With respect to authorized U.S. sales of patented articles, the Federal Circuit viewed the exhaustion doctrine as simply a default presumption, subject to override at the patentee's option. That analysis reflects a misunderstanding of this Court's decisions.

1. Unlike the Copyright Act, 17 U.S.C. 101 *et seq.*, the Patent Act of 1952, 35 U.S.C. 1 *et seq.*, does not codify any exhaustion rule. This Court has long recognized, however, that the exhaustion doctrine "delimit[s] the scope of the patent grant," *Aro*, 377 U.S. at 497 (plurality opinion), by "emancipat[ing]" an article that has been sold "from any further subjection to the patent throughout the entire life of the patent," *Keeler*, 157 U.S. at 666. The doctrine is properly understood as a limitation on the exclusive rights conferred on the patentee. See 35 U.S.C. 154(a)(1); Patent Act of 1790, ch. 7, sec. 1, 1 Stat. 110 (granting to a patentee "the sole and exclusive right and liberty of making, constructing, using and vending to others to be used, the said invention or discovery"); see also, *e.g.*, *Motion Picture Patents*, 243 U.S. at 515-516 (describing the exhaustion doctrine as rooted in the

patentee's exclusive rights to use and to vend). When a patentee authorizes a sale, he "place[s] the machine so sold beyond the confines of the patent law" and cannot "by qualifying restrictions * * * keep under the patent monopoly a subject to which the monopoly no longer applie[s]." *Boston Store*, 246 U.S. at 25.

2. The court of appeals believed that exhaustion principles "must be understood as an interpretation of [35 U.S.C.] § 271(a)'s 'without authority' language." Pet. App. 24a. The court inferred that, because Section 271(a) defines infringement to include "a sale or use of a patented article 'without authority,'" a patentee's imposition of "clearly communicated, otherwise-lawful restrictions" at the time of sale is sufficient to preserve its Section 271 rights in the sold article. *Id.* at 40a. The court reasoned that, "[u]nless granting 'authority' is to be a legal fiction, a patentee does not grant authority by denying it." *Id.* at 41a. The court thus believed that a downstream purchaser who contravenes the patentee's express instruction necessarily "infringes the patent" within the meaning of Section 271(a).

The statutory language on which the court of appeals relied provides no sound basis for disregarding this Court's patent-exhaustion precedents. The original Patent Act of 1790 imposed liability on those who would "devise, make, construct, use, employ, or vend" a patented article "without the consent of the patentee." Patent Act of 1790, ch. 7, sec. 4, 1 Stat. 111. Although subsequent patent laws enacted between 1836 and 1952 omitted any express statutory definition of actionable infringement, this Court's decisions during that period reflected the continuing understanding that the presence or absence of patentee

consent was crucial to the determination whether infringement had occurred. See, *e.g.*, *De Forest Radio Tel. Co.* v. *United States*, 273 U.S. 236, 241 (1927) (explaining that patentee's consent to another's practicing the patent "constitutes a license, and a defense to an action for a tort"); *Seymour* v. *Osborne*, 78 U.S. (11 Wall.) 516, 555 (1871) (stating that patentees are "entitled * * * to treat every one as an infringer who makes and uses or vends [a patented] machine to others to be used without their authority or license"). The Court evidently saw no inconsistency between the exhaustion decisions it issued during that period and that established understanding of infringement.

When Congress enacted Section 271(a) in 1952, that provision was understood as "simply restat[ing] the traditional definition of direct infringement." Note, *Section 271(b) of the Patent Act of 1952: Confusion Codified*, 66 Yale L.J. 132, 136 (1956). And in *Bowman* and *Quanta*, this Court recently confirmed its continuing adherence to traditional patent-exhaustion principles, without suggesting that Section 271(a) had cast doubt on its pre-1952 precedents. The language of Section 271(a) therefore provides no sound basis for the Federal Circuit's disposition of this case.

3. The Federal Circuit suggested that, under this Court's decisions, the exhaustion doctrine precludes enforcement only of post-sale restrictions that are otherwise unlawful, such as resale-price-maintenance conditions and tying arrangements. Pet. App. 28a-29a, 44a-56a. The logic and reasoning of this Court's decisions, however, did not depend on the particular *type* of post-sale restrictions at issue, but instead turned on the nature and extent of the exclusive rights

conferred by U.S. patent law. See, *e.g.*, *Quanta*, 553 U.S. at 635-638; *Motion Picture Patents*, 243 U.S. at 514-516. The decisions emphasize that, by authorizing a sale, a patentee "part[s] with his right to assert the patent monopoly with respect to" the article that has been sold—full stop. *Univis*, 316 U.S. at 251; see, *e.g.*, *Quanta*, 553 U.S. at 625 ("[T]he initial authorized sale of a patented item terminates *all* patent rights to that item.") (emphasis added); *McQuewan*, 55 U.S. (14 How.) at 549 (article that has been sold "is no longer within the limits of the monopoly").

In decisions holding that patent rights had been exhausted, moreover, this Court has sometimes reserved the separate question whether restrictions accompanying a sale could be enforced through a breach-of-contract action. See, *e.g.*, *Quanta*, 553 U.S. at 637 n.7 ("[W]e express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages."); *Keeler*, 157 U.S. at 666 (observing that the enforceability of post-sale restrictions "would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws"). That approach would make no sense if exhaustion barred enforcement only of restrictions that are otherwise unlawful.

4. The Federal Circuit also erred in interpreting this Court's decisions to apply exhaustion principles only to "'unconditional' sale[s]," which the court of appeals defined as sales unaccompanied by any announced restrictions on post-sale conduct. Pet. App. 42a; see *id.* at 38a-39a, 42a-43a. The court of appeals invoked, *inter alia*, *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544 (1873), in which this Court observed that patent rights are exhausted when a patentee authoriz-

es a sale "without any conditions." *Id.* at 547; see Pet. App. 38a. In the parlance of the time, however, the term "conditional sale" typically referred to a sale in which title to the article would not pass to the buyer until the performance of a condition precedent. See, *e.g.*, *Harkness* v. *Russell*, 118 U.S. 663, 666 (1886) (describing a "conditional sale" as a "mere agreement to sell upon a condition to be performed," only after which title passes); see also Pet. App. 115a-116a (Dyk, J., dissenting) (explaining this distinction).

This Court's exhaustion decisions are best read to use the term "conditional sale" in that narrow sense. Indeed, the Court in *Motion Picture Patents* described a sale that involved restrictions on downstream purchasers' use of the patented article, but that resulted in immediate passage of title, as an "unconditional sale." 243 U.S. at 515-516 (discussing *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1 (1913)). And the Court has repeatedly found patent rights exhausted even when the patentee purported at the time of sale to impose such restrictions on post-sale use or resale—*i.e.*, even when the relevant sales qualified as "conditional" under the Federal Circuit's definition. See, *e.g.*, *Univis*, 316 U.S. at 251; *Motion Picture Patents*, 243 U.S. at 515-519.

5. The court of appeals also erred in reading this Court's precedents to allow a patentee to enforce restrictions on the post-sale use and resale of patented articles so long as the authorized sale is made by a licensee rather than directly by the patentee. See, *e.g.*, Pet. App. 8a, 26a, 34a, 35a, 37a, 41a-46a, 62a-63a. Believing it to be "undisputed and clear under Supreme Court precedent" that respondent could have enforced its single-use/no-resale restriction against

downstream purchasers if its cartridges had been sold by an authorized licensee, the Federal Circuit reasoned that respondent should not have "less control" because it sold the cartridges itself. *Id.* at 26a.

The court of appeals' premise—that respondent's patent rights would *not* have been exhausted if respondent's cartridges had been introduced into the stream of commerce through comparable domestic sales performed by respondent's licensee—was incorrect.[2] No decision of this Court suggests that the patent laws authorize the perpetual downstream control of patented articles, as long as the patentee arranges for a licensee to make the first authorized sale. To the contrary, this Court has repeatedly held that

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[2] The Federal Circuit understood the government to urge a "distinction between patentee sale[s] and non-patentee licensee sale[s]," Pet. App. 26a, and respondent contends (Supp. Cert. Br. 6) that the government urged such a distinction in its certiorari-stage brief in *Quanta*. Those statements reflect a misunderstanding of the government's position. The government observed below that, under this Court's precedents, a "patentee may specify the circumstances in which a licensee may make an authorized (*i.e.*, noninfringing) sale on the patentee's behalf." Gov't C.A. Amicus Br. 8. But the government further argued below, as it does here, that "once the first authorized sale has occurred, the patentee may not exercise any further control over the use or resale of that article." *Ibid.* Likewise in *Quanta*, the government explained that a patentee may place "restriction[s] on a licensee's ability to make an authorized sale," but that patent rights are exhausted by the first sale made "either directly [by the patentee] or through an authorized licensee." U.S. Cert. Amicus Br. at 7, 13, *Quanta*, *supra* (No. 06-937). The government thus has consistently viewed the relevant question as whether the initial sale was *authorized*, not whether it was made by the patentee or by his licensee. See Pet. App. 120a-125a (Dyk, J., dissenting).

authorized sales by licensees exhaust the patentee's exclusive rights, even when the sale is accompanied by restrictions on post-sale use or resale. See, *e.g.*, *Quanta*, 553 U.S. at 636-637 (finding exhaustion where licensee sold with restrictions mandated by the patentee); *Univis*, 316 U.S. at 249 (observing that a sale "by the patentee or by his licensee" constitutes "a complete transfer of ownership" that exhausts patent rights, notwithstanding use restrictions).

In *Motion Picture Patents*, for example, the patentee authorized its licensee to sell the patented article, but required the licensee (as a condition of the license) to tell purchasers that the article could be used only in particular ways following the sale. 243 U.S. at 506-507. The licensee communicated the restriction to the purchaser in accordance with the license terms. *Id.* at 507. The Court held that the authorized sale by the licensee exhausted the patentee's patent rights, rendering the purported restriction on post-sale use unenforceable in a patent-infringement action against the buyer. *Id.* at 506-507, 515-518.

The court of appeals' error stemmed from its misreading of *General Talking Pictures Corp.* v. *Western Electric Co.*, 305 U.S. 124 (1938). The patentee there authorized a licensee to sell patented amplifiers only for non-commercial uses. *Id.* at 125-126.[3] The licensee violated that condition by selling amplifiers for commercial use in theaters. *Id.* at 126. The Court held that, because the amplifiers were "sold outside

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[3] Patentees may not use their power to restrict licensees in a manner that unlawfully restrains trade, *United States* v. *Line Material Co.*, 333 U.S. 287, 304 (1948), but the Court in *General Talking Pictures* stated that the non-commercial-use restriction "was legal," 305 U.S. at 127.

the scope of the license the effect is precisely the same as if no license whatsoever had been granted," *id.* at 127, so that the sale itself made the licensee "guilty of an infringement," *id.* at 126. The Court further held that, "as [the buyer of the amplifiers] knew the facts," it also was liable for infringement "because it ha[d] used the invention without license to do so." *Id.* at 127.[4]

General Talking Pictures reflects the principle that a sale made by a licensee in violation of the license terms is not an *authorized* sale that can trigger patent exhaustion. That rule makes eminent sense. Just as a patentee can determine which sales to make itself—to which customers, in which geographic regions, and so forth—so too can the patentee control the conditions under which a licensee is authorized to make those sales. See, *e.g.*, *United States* v. *General Elec. Co.*, 272 U.S. 476, 490-491 (1926).

The Federal Circuit, however, misunderstood *General Talking Pictures* to imply that, if respondent had authorized a licensee to make and sell its patented

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[4] Although the Court in *General Talking Pictures* appeared to attach significance to the buyer's knowledge that the licensee lacked authority to sell for commercial uses, it did not explain why that knowledge was legally relevant given that direct patent infringement is, and traditionally has been, a strict-liability tort. See, *e.g.*, *Commil USA, LLC* v. *Cisco Sys., Inc.*, 135 S. Ct. 1920, 1926 (2015); see also 3 William C. Robinson, *The Law of Patents for Useful Inventions* § 901, at 58 (1890) ("As a general proposition, the intention with which an act of infringement is performed is immaterial."). Because the buyer in *General Talking Pictures* knew the sale was unauthorized, the Court had no occasion to consider whether a purchaser who lacked such knowledge would also be liable for infringement.

cartridges, and the licensee (pursuant to respondent's instruction) had imposed the single-use/no-resale restriction on buyers, that restriction would have been enforceable in a patent-infringement action against the buyers and any subsequent repurchasers. See Pet. App. 44a-45a. The court concluded on that basis that, if respondent's own sales were held to have exhausted its patent rights, "[n]on-practicing-entities would have greater power to maintain their patent rights than practicing entities." *Id.* at 45a.

That analysis is incorrect. *General Talking Pictures* would be on point if respondent had instructed a licensee to impose the single-use/no-resale restriction as a contract term with buyers, and the licensee had instead sold the cartridges under contracts that allowed resale or multiple uses. In that circumstance, the licensee would be liable under Section 271(a) for selling the patented cartridges without authority from the patentee, and the buyer also could be liable for infringement if it resold or reused the cartridges. See 305 U.S. at 127; see also pp. 19-20 & n.4, *supra*.

General Talking Pictures does not suggest that, if the hypothetical licensee *obeyed* respondent's directive and placed the single-use/no-resale restriction in its sales contracts, a buyer (or subsequent repurchaser) who violated that restriction could be liable for patent infringement. To the contrary, this Court's precedents make clear that respondent's patent rights would be exhausted in that situation. See pp. 9-13, *supra*. The difference in outcomes between the two scenarios turns on the fact that a sale in conformance with the license terms is an *authorized* sale, but a sale in defiance of those terms is not. The Federal Circuit was therefore wrong to conclude that, if respondent's

own sales trigger exhaustion, respondent would be disadvantaged vis-à-vis patentees who sell through licensees.

II. A FOREIGN SALE AUTHORIZED BY A U.S. PATENTEE EXHAUSTS U.S. PATENT RIGHTS UNLESS THE PATENTEE EXPRESSLY RESERVES THOSE RIGHTS

Petitioner argues that, if a foreign sale of an article covered by a U.S. patent is authorized by the U.S. patentee, that sale *necessarily* exhausts the patentee's U.S. patent rights in the sold article. Respondent argues, by contrast, and the Federal Circuit held, that a foreign sale can *never* trigger exhaustion of U.S. patent rights. Neither of those positions is correct. Instead, lower courts long ago coalesced around an intermediate approach, under which a patentee's *express* reservation of U.S. patent rights at the time of a foreign sale will be given effect, but those rights will be deemed exhausted if an authorized foreign sale occurs and no express reservation of U.S. patent rights is made. The Court should adopt that rule of presumptive international exhaustion, which appropriately balances the territorial nature of patent law with purchasers' traditional entitlement to assume that an unrestricted sale conveys all the seller's rights in the article sold.[5]

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[5] Even if the initial sale of an article covered by a US. patent occurs abroad, any lawful resale of that article in the United States will categorically exhaust the U.S. patentee's patent rights in that article. Thus, if the U.S. patent holder sells an article abroad without expressly reserving his U.S. patent rights to control importation and resale, and the article is imported into this country and here resold, even express restrictions on the further *use* of that article will not be enforceable under U.S. patent law.

A. Foreign Sales Authorized By U.S. Patentees Should Presumptively, But Not Categorically, Exhaust U.S. Patent Rights

1. In *Boesch* v. *Gräff*, 133 U.S. 697 (1890), the Court held that U.S. patent rights were not exhausted by a foreign sale that was permissible under the foreign country's laws but had occurred without the involvement or authorization of the U.S. patentee. See *id.* at 702-703. German law gave the seller, who did not own the U.S. or German patent, the right to make and sell the product in Germany because he had begun manufacturing it before the application for a German patent was filed. *Id.* at 701. While acknowledging its precedents concerning domestic patent exhaustion, the Court found those decisions inapposite because they involved sales made pursuant to U.S. patent law, while in *Boesch* "[t]he right which [the seller] had to make and sell the burners in Germany was allowed him under the laws of that country." *Id.* at 703. The Court concluded that the lawful foreign sale in that case did not exhaust U.S. patent rights because "[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Ibid.*

Boesch makes clear that, because a foreign sale of a patented article occurs under foreign law and has no inherent link to the U.S. patent or to the rights conferred by U.S. patent law, a lawful foreign sale of a particular article will not *always* exhaust U.S. patent rights in that article. In *Boesch*, however, the German prior-use law that legitimized the foreign sale had no analog in U.S. patent law. The Court held that, although German law controlled the question whether the initial foreign sale was lawful, the propriety of

resale in the United States was controlled by U.S. law. See 133 U.S. at 703. But the Court had no occasion to decide whether, or under what circumstances, a foreign sale that is made or authorized by the U.S. patentee (and thus would be lawful if it occurred in the United States) will exhaust U.S. patent rights.

2. In recognition of the separate nature of U.S. and foreign patent rights, U.S. courts have long permitted U.S. patentees to reserve their U.S. rights when making or authorizing foreign sales. See, *e.g.*, *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897); *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir. 1893); see also *Griffin* v. *Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283, 1284-1285 (E.D. Pa. 1978) (finding no exhaustion based on a foreign sale without considering whether U.S. rights were expressly reserved). In *Griffin*, for example, the court held that a sale in Italy authorized by the U.S. patentee did not exhaust U.S. patent rights in the article. 453 F. Supp. at 1286-1287. The defendant argued that "it would be inequitable to allow [the patentee] to collect two royalties." *Id.* at 1287 n.2. In rejecting that contention, the court emphasized that the patentee held two separate property interests under U.S. and Italian law, and stated that it could not "perceive why [the patentee's] ownership of both bundles of rights should compromise those rights." *Id.* at 1286. Similarly in *Tinling*, the court concluded that a U.S. patentee's authorization of sales in Germany did not exhaust its U.S. patent rights because the patentee had expressly reserved those rights, ensuring that its distinct U.S. "monopoly * * * still remain[ed] intact." 84 F. at 195. We are aware of no case in which a U.S. court has refused to

honor an express reservation of U.S. rights made in connection with the foreign sale of a patented article.

U.S. courts have also generally concluded, however, that an *unrestricted* sale abroad authorized by the U.S. patentee will exhaust the patentee's right to control importation of the particular article into the United States and its subsequent resale or use within this country. See, *e.g.*, *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920); *Holiday* v. *Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885); *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 938 (D.N.J. 1983); see also *Kabushiki Kaisha Hattori Seiko* v. *Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (applying exhaustion principles to a foreign sale that did not include an express reservation of U.S. rights, without considering whether the result would be different if those rights had been reserved). Those courts have applied the presumption that, when an owner "sells an article without any reservation," he "intends to part with all of his rights in the thing sold." *Sanofi*, 565 F. Supp. at 938 (quoting *Holiday*, 24 F. at 185). The courts have accordingly recognized that, although a U.S. patentee is not required to relinquish his separate U.S. rights in an article when authorizing a foreign sale, the patentee must expressly reserve those rights to prevent the "purchaser [from] acquir[ing] the whole right of the vendor in the thing sold." *Holiday*, 24 F. at 185. For the reasons that follow, that approach is superior to either of the categorical rules advocated by the parties in this case.

B. The Court Should Reject Petitioner's Proposed Rule Of Automatic International Patent Exhaustion

1. The international legal regime governing the protection of inventions is defined by the independence of each nation's patent system. The United States has ratified the Paris Convention for the Protection of Industrial Property, Mar. 20 1883, 25 Stat. 1372, which provides in Article 4*bis* that "[p]atents applied for in the different contracting States * * * shall be independent of the patents obtained for the same invention in the other States." Convention at Brussels, An Additional Act Modifying the Industrial Property Convention of March 20, 1883, Dec. 14, 1900, Art. I, para. III, 32 Stat. 1940 (adding Article 4*bis*). International agreements enhance U.S. patentees' ability to seek patent protection in other countries (and vice versa), but those agreements do not provide for reciprocal patent rights, and different countries' laws vary in their protections for particular inventions. See Pet. App. 75a-81a. It is not uncommon that the United States issues a patent for an invention while another country denies protection for the same invention or approves claims significantly different in scope. Those differences reflect "different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 455 (2007) (*Microsoft*) (citation omitted).

U.S. patent law "do[es] not, and w[as] not intended to, operate beyond the limits of the United States," and the United States has "correspondingly reject[ed] the claims of others to such control over our markets." *Microsoft*, 550 U.S. at 444 (citation omitted). Of particular relevance here, no authority under a U.S. pa-

tent is needed to sell a patented article in a foreign country. See *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 527 (1972). If a U.S. patentee wishes to control foreign sales of his patented article, his "remedy * * * lies in obtaining and enforcing foreign patents." *Microsoft*, 550 U.S. at 456; see *Deepsouth Packing*, 406 U.S. at 531 (observing that, if an "inventor needs protection in [foreign] markets," Congress "inten[ded] to have him seek it abroad through patents secured in countries where his goods are being used").

For purposes of patent exhaustion, it is appropriate to distinguish between a foreign sale made under the authority of a foreign patent or otherwise in accordance with foreign law, and a U.S. sale made under the authority conferred by the U.S. patent pursuant to U.S. law. The exhaustion doctrine reflects the principle that a patentee is entitled to collect one—but only one—premium for forfeiting his exclusive right under U.S. law to prevent the sale of his patented article in the United States. By authorizing a U.S. sale, the patentee makes a choice to "part[] with his right" under U.S. law "to assert the patent monopoly" in that article. *Univis*, 316 U.S. at 251. But even if the same entity owns both the U.S. and the foreign patents for an invention, a foreign sale does not constitute an exercise of patent rights under U.S. law, and the price charged for that sale is not necessarily calibrated to reward the patentee for any relinquishment of those U.S. rights.

2. Although U.S. patent laws do not directly address the issue of international patent exhaustion, Congress has enacted legislation predicated on the assumption that U.S. patentees may authorize sales

abroad while expressly reserving their U.S. patent rights. In 2004, Congress enacted laws approving free trade agreements that commit the United States to preserve "the exclusive right of the patent owner to prevent importation of a patented product," notwithstanding a foreign sale of that product, at least where the patentee "has placed restrictions on importation by contract or other means." United States-Australia Free Trade Agreement, Art. 17.9.4, May 18, 2004, KAV 6422 (2005) (see United States-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-286, 118 Stat. 919); United States-Morocco Free Trade Agreement, Art. 15.9.4 & n.10, June 15, 2004, KAV 7206 (2005) (see United States-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, 118 Stat. 1103); see Pet. App. 87a-88a & nn.22-23 (quoting relevant provisions).

Congress has since enacted appropriations riders barring the inclusion of similar provisions in future trade agreements, apparently to allow further consideration of issues specific to particular product markets. *E.g.*, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006, Pub. L. No. 109-108, Tit. VI, § 631, 119 Stat. 2344; see *Transcript, Fiscal Year 2006 Defense Appropriations and the Fiscal Year 2006 Science, State and Justice Appropriations Bills: Hearing Before the H. Comm. on Appropriations*, 109th Cong., 2005 WL 1350973 (June 7, 2005). But Congress has left intact the statutes approving the prior free trade agreements and has not altered U.S. law relating to international exhaustion.

The United States is therefore committed, in free trade agreements approved by legislation enacted by both Houses of Congress and signed by the President,

to permit the express reservation of U.S. patent rights notwithstanding authorized foreign sales of patented articles. Those laws reflect Congress's understanding that exhaustion principles do not preclude enforcement of such reservations of rights, and they provide a further reason to construe the patent laws in a manner consistent with that understanding. Cf. *Vimar Seguros y Reaseguros, S.A.* v. *M/V Sky Reefer*, 515 U.S. 528, 539 (1995) ("[C]ourts should be most cautious before interpreting * * * domestic legislation in such manner as to violate international agreements.").

3. Petitioner contends (Br. 45-48) that this Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which held that a U.S. copyright holder's U.S. rights were automatically exhausted by its sale of copyrighted books abroad, compels an analogous rule of automatic international exhaustion in the patent context. That is incorrect.

The Court in *Kirtsaeng* held that 17 U.S.C. 109(a), which permits owners of copies "lawfully made under this title" to sell or dispose of those copies without the copyright owner's permission, applies to copies "lawfully made abroad." 133 S. Ct. at 1356. In reaching that conclusion, the Court rejected the argument that Section 109(a) referred only to copies made in the United States. *Id.* at 1358-1362. The Court concluded that the proposed geographic limitation would exempt foreign-made copies from the first-sale doctrine entirely and so yield the "absurd result that the copyright owner c[ould] exercise downstream control even when it authorized the import or first sale" in the United States. *Id.* at 1366; see *id.* at 1373 (Kagan, J., concurring).

Kirtsaeng's reasoning does not carry over to the patent context. Patent and copyright law "are not identical twins." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). The Court has accordingly exercised "caution * * * in applying doctrine formulated in one area to the other," *ibid.*, including in cases involving exhaustion, see *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 345-346 (1908). That caution is particularly warranted here. Because the Patent Act contains no analog to 17 U.S.C. 109(a), the *Kirtsaeng* Court's analysis of the text, context, and history of that provision does not illuminate the proper international-patent-exhaustion rule. And unlike in the copyright context, which is governed by the particular language of Section 109(a), a rule of automatic international exhaustion is unnecessary to prevent U.S. patentees from exercising perpetual control over patented goods. Even if a patentee withholds its U.S. rights in authorizing a foreign sale, its subsequent authorization of a sale in the United States would fully exhaust those rights under the domestic-exhaustion rule that has prevailed for more than 160 years.

As petitioner emphasizes (Br. 45-46), the *Kirtsaeng* Court found additional support for its interpretation of Section 109(a) in the "common law's refusal to permit restraints on the alienation of chattels," which "makes no geographical distinctions." 133 S. Ct. at 1363. But that common-law doctrine was significant because the Court could identify "no language, context, purpose, or history that would rebut" it, either in Congress's codification of the doctrine or in prior decisions discussing copyright exhaustion. *Id.* at 1364. In the patent context, by contrast, *Boesch* demon-

strates that sales lawfully made in a foreign country do not automatically trigger exhaustion of U.S. patent rights. In addition, lower courts have consistently upheld express reservations of U.S. patent rights accompanying foreign sales, and Congress has enacted legislation that assumes that understanding of U.S. patent law. *Kirtsaeng* therefore does not resolve the question presented here.

4. Petitioner's policy arguments (Br. 55-58) do not provide a sound basis for discarding the balanced rule of presumptive international patent exhaustion in favor of an automatic-exhaustion rule.

Petitioner observes (Br. 57-58) that, because it may be difficult to trace patent rights in particular articles or their components, allowing U.S. patent holders to reserve their U.S. rights when making an initial foreign sale will expose unwitting buyers to potential infringement liability. But those risks already exist to some extent as a consequence of other aspects of U.S. patent law. Patent infringement is a strict-liability tort, and independent creation is not a defense. A business acting in good faith and with due diligence therefore may face unexpected infringement claims, particularly in technology-intensive industries.

Petitioner's proposed rule of automatic international patent exhaustion, moreover, would apply by its terms only to foreign sales "authorized by the U.S. patentee" (Br. 44), not to other lawful foreign sales such as occurred in *Boesch* or that occur when different entities own the U.S. and foreign patents. Even under petitioner's rule, a downstream purchaser therefore would need to know the circumstances of the initial foreign sale in order to determine with certainty whether the U.S. patentee's rights had been ex-

hausted. Similar uncertainties could arise when purchasers buy patented articles from a licensee, because the licensee may be acting outside the scope of the license and without authority to make the sale, as occurred in *General Talking Pictures*.

Commercial law has recognized and responded to the practical problems petitioner identifies through default rules of indemnification against third-party infringement claims. See, *e.g.*, Uniform Commercial Code § 2-312. In addition, unintentional infringers generally are not subject to an award of enhanced damages. See, *e.g.*, *Halo Elecs., Inc.* v. *Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1928 (2016). The relatively short duration of patent protection as compared to copyright protection, and the assurance that U.S. patent rights will be exhausted by the first authorized sale in the United States of an article originally sold abroad, further ameliorate the potential harms petitioner identifies. Petitioner's policy arguments—which do not account for any potential offsetting benefits of allowing international market segmentation in patented goods—do not justify a rule of automatic international patent exhaustion.

C. This Court Should Also Reject The Rule, Advocated By Respondent And Adopted By The Federal Circuit, That A Foreign Sale Can Never Exhaust U.S. Patent Rights

Although the Federal Circuit correctly recognized that foreign sales do not *automatically* exhaust U.S. patent rights, the court erred in reaffirming *Jazz Photo*'s rule that foreign sales can *never* have that effect. Pet. App. 101a-103a.[6] The patentee can de-

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[6] Contrary to respondent's suggestion (Supp. Cert. Br. 10), the Federal Circuit adopted a bright-line rule that foreign sales never

termine whether the terms of a foreign sale adequately reward him for his separate rights under U.S. and foreign law. See *id.* at 133a-134a (Dyk, J., dissenting). While no authority under U.S. law is required to consummate a foreign sale, nothing in the nature of a foreign sale logically precludes a U.S. patentee from conveying his U.S. rights as part of the foreign transaction.

The Federal Circuit concluded that the initial purchaser and subsequent downstream buyers should have the burden of proving that the U.S. patentee granted an express or implied license to import, use, or resell the patented article in the United States. Pet. App. 101a-103a. That ruling would defeat a buyer's legitimate expectation that an unrestricted foreign sale conveys all of the seller's interest in the patented article. The court's approach also harms downstream buyers who were not parties to the original foreign sale and may have difficulty marshaling evidence that an express or implied license was granted. By contrast, when the U.S. patentee authorizes the initial foreign sale, it is well positioned to clearly communicate an express reservation of U.S. rights and to provide evidence of that restriction in any ensuing litigation. A rule of presumptive exhaustion therefore appropriately balances "the interests of the rights holder and the unsuspecting buyer." Pet. App. 134a (Dyk, J., dissenting).

The Federal Circuit issued its judgment "on the premise that [respondent] made the foreign sales

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exhaust U.S. patent rights. The court held that a foreign sale creates a defense to infringement "only" if the defendant can establish an "express or implied license—a defense separate from exhaustion." Pet. App. 9a.

without communicating a reservation of U.S. patent rights." Pet. App. 63a. The parties dispute the accuracy of that premise. Compare Pet. Supp. Cert. Br. 4, with Resp. Supp. Cert. Br. 12. The judgment in respondent's favor as to cartridges respondent sold abroad should therefore be vacated and remanded for whatever further factfinding may be necessary to resolve whether respondent expressly reserved its U.S. rights in those foreign transactions.

CONCLUSION

The judgment of the court of appeals should be reversed as to cartridges respondent sold in the United States and vacated as to cartridges respondent sold abroad.

Respectfully submitted.

NOEL J. FRANCISCO
Acting Solicitor General
JOYCE R. BRANDA
Acting Assistant Attorney General
MALCOLM L. STEWART
Deputy Solicitor General
ELIZABETH B. PRELOGAR
Assistant to the Solicitor General
MARK R. FREEMAN
MELISSA N. PATTERSON
Attorneys

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IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF *AMICUS CURIAE* PROFESSOR FREDERICK M. ABBOTT IN SUPPORT OF PETITIONER

PROF. FREDERICK M. ABBOTT
FLORIDA STATE UNIVERSITY
COLLEGE OF LAW
425 W. Jefferson St.
Tallahassee, FL 32301
(850) 644-1572
fabbott@law.fsu.edu

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

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INTEREST OF *AMICUS CURIAE*[1]

Amicus Curiae is Frederick M. Abbott, Edward Ball Eminent Scholar Professor of International Law at Florida State University College of Law. Professor Abbott has researched and written extensively in the fields of international intellectual property, international trade and public health law. For more than twenty years (1993-2014) he served as Rapporteur for the Committee on International Trade Law of the International Law Association, during which tenure he organized meetings of experts and prepared two detailed reports on the subject of parallel importation. He served as advisor to the government of South Africa on trade and intellectual property issues in 2000-01 as that government successfully defended a complaint initiated by originator pharmaceutical industry enterprises challenging South Africa's adoption of international exhaustion of patents. He has served as consultant to the World Health Organization on matters relating to intellectual property, trade and public health for many years. He recently served as a member of the Expert Advisory Group to the United Nations Secretary General's High Level Panel on Access to

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[1] Pursuant to Sup. Ct. R. 37.3(a), *Amici* certify that Respondent has given blanket consent to the filing of *Amicus* briefs in support of either party, and Petitioner has consented to the filing of this brief in correspondence on file with the Clerk. Pursuant to Sup. Ct. R. 37.6, *Amicus* certifies that no counsel for any party authored this brief in whole or in part, no party or party's counsel made a monetary contribution to fund its preparation or submission, and no person other than *Amicus* made such a monetary contribution.

Medicines. He is Co-Chair of the Global Health Law Committee of the International Law Association. Professor Abbott is co-author of a widely-used course book on international intellectual property law, as well as co-author of a book on global pharmaceutical policy.

This *Amicus* favors international exhaustion of patent rights under the U.S. Patent Act. Professor Abbott is particularly interested in measures that may help to ameliorate the burdens imposed on the American public by high pharmaceutical prices. Professor Abbott argues that parallel importation of patented pharmaceutical products may aid in achieving that objective.

SUMMARY OF ARGUMENT

Up until the decision of the Federal Circuit in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), the preponderant weight of judicial authority in the United States, including of this Court, was in favor of international exhaustion of patent rights. The decision of the Federal Circuit for which certiorari has been granted, *Lexmark International, Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016), affirms its *Jazz Photo* decision, and it would continue enabling post-sale restrictions based on patents. This *Amicus* urges the Court to overrule the Federal Circuit on both aspects of that decision. This means adopting a rule of international exhaustion of patent rights for the United States consistent

with pre-*Jazz Photo* jurisprudence, and prohibiting post-sale restrictions based on patent.

A fundamental flaw in the approach of the Federal Circuit involves its reasoning that a rule of territoriality of patent rights precludes U.S. courts from taking into account activities of U.S. patent owners outside the United States. The international agreements governing the international patent system do not prescribe such a rule of territoriality. By recognizing that first sales under the authority of U.S. patent owners outside the United States exhaust U.S. patent rights, this Court would not in any sense be subjecting U.S. patent owners to application of foreign law, and would not be impinging on the authority of foreign sovereigns. The rule of independence of patents prescribed by the Paris Convention on the Protection of Industrial Property provides that acts taken by patent authorities in one country do not affect patent rights in other Paris countries. Recognition by this Supreme Court that first sales in foreign countries exhaust U.S. patent rights would not affect patents granted outside the United States. The World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights permits the United States to adopt international exhaustion of patents. Contrary to the view of the Federal Circuit, three trade agreements entered into by the United States that address first sales outside the United States at most require this country to provide the means to enforce contracts limiting imports. Adoption by this Court of a rule of international patent exhaustion would not contravene any such agreement.

This *Amicus* supports the general case for international exhaustion of patent rights and elimination of patent-based post-sale restrictions. This *Amicus* has expertise in the global regulation of pharmaceutical products, including with respect to patents and other forms of intellectual property, and much of this brief addresses the exhaustion issue with respect to patented pharmaceuticals.

By allowing parallel importation of U.S.-patented pharmaceutical products, this Court would enable price competition from imported FDA-approved products manufactured outside the United States with the consent of their U.S. patent owners. The introduction of parallel import products is likely to have a modest downward pricing effect. The United States is a large pharmaceutical market, and the supply of U.S. patented pharmaceuticals from abroad is, and will remain, limited. The fact that parallel imported pharmaceutical products are likely to have a modest effect on U.S. prices is not reason to preclude them. Parallel imports may be one useful and important step toward moderating patented pharmaceutical prices in the United States.

The United States should continue to encourage low-priced supply of U.S.-patented pharmaceutical products to low income countries. Suppliers of such products may restrict exports from low income countries by contract, and such contractual provisions should be enforceable, including in the United States. Governments in low income countries may adopt legislation to limit exports of products supplied under discounted pricing programs consistently with WTO

rules. If necessary, the United States could also limit imports from designated low income countries, or imports previously supplied under designated programs, under WTO rules. The United States should not forgo the benefits of a rule of international exhaustion of patent rights for the limited purpose of enabling price discrimination with respect to one specific category of products.

ARGUMENT

The Petition for Certiorari by Impression Products and the brief of the Department of Justice filed in support of the petition amply demonstrate that the Federal Circuit decision below misconstrued Supreme Court jurisprudence regarding post-sale restrictions based on patents, and should be overturned. This *Amicus* brief focuses on that part of the Federal Circuit decision addressing whether *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. ___, 133 S.Ct. 1351 (2012), effectively overruled its decision in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001). In *Jazz Photo*, the Federal Circuit announced a new rule of "national exhaustion" of patent rights[2] for

[2] In customary usage, "national exhaustion" of intellectual property rights (IPRs), including patents, is used to refer to a first sale doctrine in which only first sales occurring within the national territory of the country where the doctrine operates exhaust the rights of the IPR owner. "International exhaustion" is used to refer to a first sale doctrine in which a first sale anywhere in the world exhausts the rights of the IPR owner. "Regional exhaustion," which is not otherwise discussed in this *Amicus* Brief

the United States without a hint of acknowledgment that in doing so it rejected contrary precedent of this Court and several Circuits. In its decision below, *Lexmark International, Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016), the Federal Circuit affirmed its *Jazz Photo* decision, repeating its initial error. This Court should correct that mistake.

This *Amicus* is particularly concerned with addressing arguments that have been presented by patent-owning pharmaceutical industry groups in opposition to a rule of international patent exhaustion as such arguments are unpersuasive. A rule of international patent exhaustion should have the beneficial effect of placing downward pressure on pharmaceutical prices in the United States. Such downward pressure would have a beneficial impact on public health budgets as well as on individual patients/consumers. There is no reason to protect pharmaceutical industry patent owners from competition with their own products. The interests of low income countries in securing specially priced products can be protected through contract and, where necessary, government regulation. Such interest does not suggest or mandate recognition of post-sale restrictions based on patents.

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refers to a first sale doctrine in which a first sale anywhere within a regional arrangement exhausts the rights of the IPR owner within the territory of that arrangement. *See* FREDERICK M. ABBOTT, THOMAS COTTIER AND FRANCIS GURRY, INTERNATIONAL INTELLECTUAL PROPERTY IN AN INTEGRATED WORLD ECONOMY, Aspen Publishers, 3d ed., 2015, at pgs. 98-99 (hereinafter "Abbott, Cottier & Gurry").

I. U.S. and International Law Support International Exhaustion

A. References to Territoriality of Patent Law Require Clarification

In its decision below, 816 F.3d at 764-65, the Federal Circuit emphasized that patent law is territorial, referring to precedent of this Supreme Court, *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 127 S.Ct. 1746, 167 L.Ed.2d 737 (2007). However, the Federal Circuit's unqualified reference does not accurately reflect the way in which the international patent system is governed, or the context in which *Microsoft v. AT & T* was decided.

Neither this Court nor the Federal Circuit have held that activities of U.S. patent owners outside the United States may not affect the application of U.S. patent law within the United States. Neither the Paris Convention on the Protection of Industrial Property (hereinafter "Paris Convention"),[3] the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (hereinafter "WTO TRIPS Agreement"),[4] nor

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[3] Paris Convention for the Protection of Industrial Property (as amended on September 28, 1979). Source: www.wipo.int, including ratifications by United States through the Stockholm Act (1967), accessed January 12, 2017 (hereinafter "Paris Convention").

[4] Agreement on Trade-Related Aspects of Intellectual Property Rights, Marrakesh Agreement Establishing the World Trade Organization, Annex IC, Apr. 15, 1994, in WORLD TRADE ORGANIZATION, THE LEGAL TEXTS: THE RESULTS OF THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS 321 (1999) [hereinafter "WTO TRIPS Agreement"].

other international agreements to which the United States is party preclude the consideration of foreign activities in the application of U.S. domestic patent law. Without doubt these international agreements allow adoption of a rule of international exhaustion with respect to patents.

B. Independence of Patents

The Paris Convention prescribes a rule of independence of patents (*see* FREDERICK M. ABBOTT, THOMAS COTTIER AND FRANCIS GURRY, INTERNATIONAL INTELLECTUAL PROPERTY IN AN INTEGRATED WORLD ECONOMY, Aspen Publishers, 3d ed., 2015, at pgs. 92-97).[5] This rule provides that the patent law and administrative decisions of each Paris Convention member state are independent of those of other states, and that the decisions of the authorities in one state will not determine the effect of patents in another state. *See,*

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[5] The text of the Paris Convention provides:

Article 4bis

Patents: Independence of Patents Obtained for the Same Invention in Different Countries

(1) Patents applied for in the various countries of the Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not.

(2) The foregoing provision is to be understood in an unrestricted sense, in particular, in the sense that patents applied for during the period of priority are independent, both as regards the grounds for nullity and forfeiture, and as regards their normal duration.

e.g., *Cuno, Inc. v. Pall Corporation*, 729 F. Supp. 234, 239 (E.D.N.Y. 1989). Patents are independent of each other principally so as to prevent abuse by courts or administrative authorities in one country of patents and patentees in another country.

C. Territoriality and Comity

The Paris Convention does not prescribe a rule of territoriality of patents. Abbott, Cottier & Gurry, at 81. To the extent that courts in one Paris country refuse to extend rights of patentees to activities in other Paris countries, this is a matter of judicial accommodation similar to the accommodation represented by act of state doctrine.[6] It is a matter of comity. Nothing in the Paris Convention directs that the United States must refuse to allow its patentees to sue each other for infringement based on activities taking place in foreign countries. The Federal Circuit itself has acknowledged that activities taking place outside the United States can form part of an infringement within the United States in *NTP, Inc. v. Research in Motion, Inc.*, 418 F.3d 1282 (Fed. Cir. 2005) (addressing conduct outside the

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[6] As explained by this Court in *Banco Nacional de Cuba v. Sabbatino*, 84 S.Ct. 923, 934 (1964), quoting from *Underhill v. Hernandez*, 168 U.S. 250, 252, 18 S.Ct. 83, 84, 42 L.Ed. 45 (1897):

> "'Every sovereign state is bound to respect the independence of every other sovereign state, and the courts of one country will not sit in judgment on the acts of the government of another, done within its own territory.'"

United States in affirming a finding of patent infringement).[7]

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[7] The Federal Circuit said:

"The question before us is whether the using, offering to sell, or selling of a patented invention is an infringement under section 271(a) if a component or step of the patented invention is located or performed abroad. . . ."

" . . . it is unclear from the statutory language how the territoriality requirement limits direct infringement where the location of at least a part of the 'patented invention' is not the same as the location of the infringing act."

* * *

"this case involves a system that is partly within and partly outside the United States and relates to acts that may be occurring within or outside the United States"

* * *

"Decca [*Decca Ltd. v. United States*, 210 Ct.Cl. 546, 544 F.2d 1070 (Fed. Cl. 1976)] provides a legal framework for analyzing this case. As our predecessor court concluded, infringement under section 271(a) is not necessarily precluded even though a component of a patented system is located outside the United States."

* * *

"The use of a claimed system under section 271(a) is the place at which the system as a whole is put into service, i.e., the place where control of the system is exercised and beneficial use of the system obtained. *See Decca*, 544 F.2d at 1083. Based on this interpretation of section 271(a), it was proper for the jury to have found that use of NTP's asserted system claims occurred within the United States. RIM's customers located within the United States controlled the transmission of the originated information and also benefited from such an exchange of information. Thus, the location of

D. Due Regard for Sovereign Prerogative

This Supreme Court has held, and emphasized as recently as *Microsoft v. AT & T*, that the U.S. Patent Act governs activities that take place within the territory of the United States insofar as the enforcement of rights of U.S. patent owners (i.e. to preclude third parties from infringing their U.S. patent rights).

> "It is the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country." *Microsoft v. AT & T*, 550 U.S. at 441.

Third parties are prevented from making, using or selling within, or importing into, the territory of the United States without authority.[8] There is a presumption that U.S. patent owners may not preclude third parties from undertaking acts outside the territory of the United States based on their U.S. patents, although Congress may well legislate contrary to that presumption. This Supreme Court has said that an effort by the United States or its courts to enforce U.S. patent rights abroad would impinge on the sovereign authority of

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the Relay in Canada did not, as a matter of law, preclude infringement of the asserted system claims in this case." 418 F.3d at 1315-17.

[8] Section 271(a) of the Patent Act provides: "Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. §271 – Infringement of patent.

Paris Convention, *supra* note 3.

other governments to control activities taking place within their own territory. 550 U.S. at 455.

This limitation on the enforcement of patent rights should not be conflated with the authority of U.S. courts to take into consideration acts taking place outside the United States in terms of enforcement of patents within the territory of the United States. Congress, has in fact, expressly recognized this scope of authority in adopting 35 U.S.C. §271(f) which this Supreme Court interpreted in *Microsoft v. AT & T*. Congress determined that it possessed such authority when it adopted the provision making it an act of infringement, *inter alia*, to export components with the knowledge that they would be combined outside the United States in a way that would infringe a U.S. patent if the combination was performed within the United States.

There is nothing about the international exhaustion of patent rights that impinges upon decisions of foreign sovereigns, or that is dependent on decisions made by foreign sovereigns (including their regulatory authorities). It is wholly a question of U.S. law.[9] The

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[9] The Supreme Court might wish to look at the decision by the Supreme Court of Japan in the *BBS Wheels* case in the context of this case. *BBS Kraftfahrzeugtechnik AG and BBS Japan, Inc. v. Rasimex Japan, Inc.*, Supreme Court Heisei 7(o) No. 1988 (July 1, 1997), J. of S.Ct., No. 1198, translated excerpt reprinted in Abbott, Cottier & Gurry, at 240-42 (July 15, 1997), pgs. 8-10. In *BBS Wheels*, the holder of a patent in Japan, with a parallel patent in Germany, sought to prevent the importation of aluminum alloy wheels into Japan, notwithstanding a first sale of those wheels in Germany. The Japanese Supreme Court observed that this was not a matter of determining German law or its consequences, but

United States will be deciding which products may be imported into the United States without suffering claims of patent infringement.[10]

E. Territoriality and Independence as Distinct Concepts

The idea that the United States should not allow its patents to be controlled or governed by foreign patent law, on one side, and the idea that the United States should not allow its patents to be affected by activities occurring abroad, on the other, involve distinct concepts. Indeed, in *Boesch v. Graff*, 133 U.S. 697, 10 S.Ct. 378 (1890), this Court applied the former principle in refusing to recognize exhaustion of the United States patent based on application of German law (i.e., the prior user right). But, that case did not involve an

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rather a matter of Japanese law. Namely, did the Japanese Patent Act recognize that the rights of a Japanese patent owner with respect to a product first placed on the market outside of Japan were exhausted by the first sale? The Japanese Supreme Court responded in the affirmative, that Japanese patent rights are exhausted by a first sale outside Japan, although the Japanese patent owner may through contract and notice restrict subsequent importation into Japan.

[10] Many acts taking place outside the United States are the subject of federal law, actionable within the United States. *See, e.g., W.S. Kirkpatrick & Co. v. Environmental Tectonics Corp., Int'l*, 493 U.S. 400, 110 S.Ct. 701, 704, 107 L.Ed.2d 816 (1990), in reference to the Foreign Corrupt Practices Act of 1977 (FCPA), 15 U.S.C. §§78dd-1, 78dd-2. When this Court enforces a criminal penalty against a U.S. person that bribes a foreign government official, the act that is the subject of the penalty took place outside the United States, and is not dependent on whether the foreign country penalizes the local conduct.

action undertaken by or with the consent of the U.S. patentee in Germany. The Supreme Court was not addressing the exercise of rights by a U.S. patent owner abroad and the effect that might have on its U.S. patent rights.

F. Congress

The parties in this case agree that the U.S. Congress has not expressly spoken on the question whether the decision by a U.S. patent owner to place its invention on the market in a foreign country exhausts its patent rights within the United States. The Patent Act does not expressly address whether a decision by a U.S. patent owner to first sell its invention abroad exhausts its patent rights in the United States. There was long-standing judicial recognition – prior to *Jazz Photo* – that a first sale abroad exhausts patent rights. As noted *infra*, Congress adopted legislation post-*Jazz Photo* precluding USTR from including provisions addressing the international exhaustion question in trade agreements. Congress has authorized certain importation of prescription medicines from abroad subject to regulatory approval from HHS.[11] In doing so it

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[11] Medicare Prescription Drug, Improvement and Modernization Act of 2003, Pub. L. No. 108-173 – Dec. 8, 2003, 117 Stat. 2066, et seq. *See* U.S. Department of Health and Human Services, HHS Taskforce on Drug Importation, *Report on Prescription Drug Importation*, December 2004 [hereinafter "HHS Taskforce Report"].

did not expressly address the issue of patents. Congress has not suggested a presumption against international exhaustion of patents.

G. Trade Agreements and Their Effect

The multilateral agreements regulating patents to which the United States is a party allow adoption of a rule of international exhaustion. Although participants in the Uruguay Round negotiations agreed that the WTO TRIPS Agreement did not establish any mandatory rule of exhaustion,[12] this determination was brought into question in the late 1990s by a number of originator pharmaceutical companies and certain supporting governments in the context of challenges to the South African Medicines and Related Substances Control Amendment Act of 1997.[13] After the originator industry companies had formally withdrawn their challenge, the Members of the World Trade Organization made clear in the 2001 Doha Declaration on the TRIPS Agreement and Public Health, at paragraph 5(d):

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[12] *See* Frederick M. Abbott, *First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation*, 1 JOURNAL OF INTERNATIONAL ECONOMIC LAW 607, 609 (1998).

[13] South Africa, Act. No. 90 of 1997: Medicines and Related Substances Control Amendment Act, 1997, Government Gazette, December 12, 1997, No. 18505. *See* Frederick M. Abbott, *The Doha Declaration on the TRIPS Agreement and Public Health: Lighting a Dark Corner at the WTO*, 5 JOURNAL OF INTERNATIONAL ECONOMIC LAW 469, 471 (2002) [hereinafter "Abbott-Doha"].

> The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4.[14]

The Doha Declaration represents an agreement among the parties to the WTO Agreements on interpretation of the WTO TRIPS Agreement.[15] Today, the proposition that each Member of the WTO is free to adopt its own rule of exhaustion is widely accepted, including by this Court.[16]

As observed by the Federal Circuit in its decision below, when the U.S. Congress approved the results of the Uruguay Round in the Uruguay Round Agreements Act,[17] it did so with assurance in the Executive Branch Statement of Administrative Action that the WTO TRIPS Agreement was not intended to modify U.S. law on the subject of parallel importation.[18]

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[14] WTO, Declaration on the TRIPS Agreement and Public Health (14 November 2001), Doc. WT/MIN(01)/DEC/2 (20 November 2001).

[15] Abbott-Doha, at 494-97.

[16] *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. ___, 133 S.Ct. 1351 (2013), Justice Ginsburg dissenting, at 1383-84.

[17] Uruguay Round Agreements Act, Pub. L. No. 103-465, §§532, 533, 108 Stat. 4809, 4983-90 (1994).

[18] *Lexmark International, Inc. v. Impression Products, Inc.*, 816 F.3d 721, 765 (Fed. Cir. 2016). Message from the President of the United States Transmitting the Uruguay Round Trade Agreements, Texts of Agreements Implementing Bill, Statement

Subsequent to U.S. adoption of the WTO TRIPS Agreement, USTR negotiated a few bilateral free trade agreements in which were incorporated provisions that obligated the parties to make provision against unauthorized importation of patented goods first placed on the market outside the country party, at least by providing for the enforcement of contractual restrictions.[19] The fact that these agreements included the option to recognize contractual restrictions, as opposed to enforcement based on patent rights, must have taken into account uncertainty within USTR and the federal government as to whether this Supreme Court would uphold the Federal Circuit's decision in *Jazz Photo*. As the Department of Justice has noted in its *Amicus* brief supporting the grant of certiorari in this case, subsequent to negotiation of these three trade agreements, Congress in its appropriations legislation precluded the incorporation by the Executive of equivalent provisions in subsequent trade agreements.[20]

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of Administrative Action and Required Supporting Statements, H.R. Doc. No. 316, 103d Cong., 2d Sess. (1994), reprinted in 1994 U.S.C.C.A.N. 4040, 4280.

[19] *Id.*, 816 F.3d at 765-66.

[20] Brief for the United States as *Amicus Curiae*, at 19, *citing, e.g.*, Science, State, Justice, Commerce, and Related Agencies Appropriation Act, 2006, Act of Nov. 22, 2005, Pub. L. No. 109-108, §631, 119 Stat. 2344, which provides:

> "Sec. 631. None of the funds made available in this Act may be used to include in any new bilateral or multilateral trade agreement the text of –
>
> (1) paragraph 2 of article 16.7 of the United States-Singapore Free Trade Agreement;

The Federal Circuit decision below is disingenuous in suggesting that adoption by the Supreme Court of a rule of international exhaustion would negate U.S. obligations in the three referenced free trade agreements. As the dissent in the case below observed, it is evident that recognizing the right of patent owners to enforce contracts would be adequate to satisfy U.S. obligations under these agreements because the agreements expressly provide that option.[21] The agreements do not entail an obligation to permit patent owners to bring infringement actions based on parallel imports.

Pursuant to the implementing acts for each of the three free trade agreements, there was no intention to change existing federal law except as otherwise expressly provided, and none of the implementing acts purported to modify the Patent Act regarding exhaustion. Pursuant to federal statute, the three free trade agreements are not self-executing or directly effective in the law of the United States.[22] The fact that the Congress has expressed a view that the provisions in the three agreements should not be incorporated in future U.S. trade agreements suggests that this Court would be acting most consistently with the will of Congress in refusing to create a rule of federal patent law based

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(2) paragraph 4 of article 17.9 of the United States-Australia Free Trade Agreement; or

(3) paragraph 4 of article 15.9 of the United States-Morocco Free Trade Agreement."

[21] *Id.*, Dyk dissenting, 816 F.3d at 785-86.

[22] *Id.*, Dyk dissenting, 816 F.3d at 785-86, at n. 14.

on these three free trade agreements. But, to be clear, there would be no inconsistency between a decision of this Court recognizing that contractual restrictions may limit imports to the United States and the provisions of the three trade agreements, which would not entail any change in federal law.

II. Policy Grounds Favoring International Exhaustion

There are several reasons why international exhaustion of patent rights is preferable to national exhaustion from the standpoint of the United States.

A. Price discrimination injures the American consumer

Allowing patent owners to block parallel imports is in effect a mechanism for enabling price discrimination among markets. If the holder of a patent in the United States can block the importation of products that it has first sold abroad, that patent holder may charge a higher price in the U.S. market for those products than it charges abroad.

The Federal Circuit considers that granting this authority to patent owners allows them to secure a level of patent reward or compensation commensurate with the income level and other market factors within the United States.[23] The Federal Circuit simply ignores

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[23] *Lexmark International, Inc. v. Impression Products, Inc.*, 816 F.3d at 760-62.

the corollary adverse impact on U.S. consumers who must pay more while the U.S. patent owner sells the same product in other markets at lower prices.

The Federal Circuit does not explain why U.S. consumers should surplus-fund R&D for the benefit of foreign consumers. If U.S. manufacturers need to secure a certain level of revenue to fund R&D, the responsibility for that revenue should be spread out among the global consumer base. In theory, U.S. manufacturers may need to raise prices in foreign markets and lower prices in the U.S. market under a rule of international exhaustion, in other words, move towards global prices. Benefits should accrue to U.S. consumers who would pay something between the former U.S. "surplus" price and the adjusted global price, assuming that the pre-international exhaustion U.S. price was higher.

B. Facilitating global supply chains

As this Court observed in *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. ___, 133 S.Ct. 1351, 1365-66 (2013), the manufacture of products sold and used in the United States relies on an extensive network of supply chains spanning the globe. Although 2017 political discourse in the United States may envision some import/export rebalancing as a means to promote domestic manufacturing, the globally distributed nature of productive resources will not within the foreseeable future transform the U.S. economy into an autarky. The typical computer product sold within the United States is likely to contain microprocessors

manufactured within the United States,[24] but the preponderance of other parts are most likely to have been produced in foreign countries, and the computer itself is likely to have been assembled outside the United States.[25] A substantial part of the components of each computer are likely to be protected by U.S. patents, including those parts produced outside the United States.[26] Absent a doctrine of international exhaustion, or express consent by each owner of a U.S. patent for each part, the owner of each and every patent covering a part in the computer has the right to prevent the importation of that computer into the United States – despite the lawful purchase of each and every part outside the United States. The same for the ubiquitous cellular telephone and other smart devices marketed and sold throughout the United States.

The Federal Circuit dismissed concern with supply chain interference on grounds that, insofar as it was aware, *Jazz Photo* had not resulted in the types of supply chain problems suggested by Petitioner and various *Amici*. In *Kirtsaeng v. Wiley*, this Court rejected a similar argument regarding copyright as was

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[24] *See, e.g.*, Falan Yinug, *Made in America: The Facts about Semiconductor Manufacturing, Semiconductor Industry Association* (SIA), August 2015.

[25] *See, e.g.*, Brett Berger and Robert F. Martin, *The Growth of Chinese Exports: An Examination of the Detailed Trade Data*, Board of Governors of the Federal Reserve System, International Finance Discussion Papers, Number 1033, November 2011, at 8-9.

[26] *See, e.g.*, Robert Hackett, *These tech companies scored the most patents in 2014*, FORTUNE – TECH, Updated: Feb. 24, 2015, http://fortune.com/2015/02/24/most-patents-companies-2014/, accessed January 14, 2017.

made by the Federal Circuit with respect to patents, observing, inter alia, "we believe that the practical problems that petitioner and his *Amici* have described are too serious, too extensive, and too likely to come about for us to dismiss them as insignificant – particularly in light of the ever-growing importance of foreign trade to America." 133 S.Ct. at 1367.

It is difficult to gauge the supply chain impact of *Jazz Photo* because most patent enforcement issues are dealt with outside the courts. It may well be that there are significant supply chain interruptions taking place. *Amici* representatives of the electronics industry and various manufacturing industries are better placed to gauge the effect-in-fact of *Jazz Photo*.

If this Court formally endorses national exhaustion, it is reasonable to assume that there will be more interest among U.S. patent holders in the potential for blocking product imports. Cf., *Kirtsaeng*, 568 U.S. ___, 133 S.Ct. at 1366. If some patent-owning manufacturing companies choose not to enforce certain rights, this is not a sound reason to validate those rights.

III. Potential constraints on high pharmaceutical prices

A. Stakeholder interests

The United States is an advanced economy with substantial aggregate wealth. The U.S. government has largely avoided controlling the prices of medicines,

including patented medicines.[27] Prices for patent-protected originator pharmaceutical products in the United States substantially exceed prices for the same products in other countries.[28] If parallel imports of medicines are allowed,[29] downward pricing pressure will be imposed on patented pharmaceuticals in the United States.[30] For this reason, the originator pharmaceutical industry has staunchly opposed a rule of international exhaustion of patents and corollary parallel imports.[31]

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[27] *See, e.g.*, Jim Hahn, *Federal Drug Price Negotiation: Implications for Medicare Part D*, Congressional Research Service, RL33782, January 5, 2007.

[28] *See* U.S. Department of Commerce, International Trade Administration, *Pharmaceutical Price Controls in OECD Countries: Implications for U.S. Consumers, Pricing, Research and Development, and Innovation*, December 2004.

[29] With respect to patents, "parallel imports" refer to import goods patented in the importing country (here, the United States), when such goods are first placed on the market outside that country under the authority of the patent owner. *See* Frederick M. Abbott, *First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation*, 1 JOURNAL OF INTERNATIONAL ECONOMIC LAW 607, 608 (1998).

[30] *See* HHS Taskforce Report, at 65-80. The HHS Taskforce Report concluded that the overall effect on prices in the United States was likely to be modest based on factors alluded to in this *Amicus* Brief as well.

[31] The term "originator" is customarily used to refer to the party that first obtains approval from the drug regulatory authority for the commercial marketing of a drug. In the United States, that authority is the Food and Drug Administration (FDA) within the Department of Health and Human Services (HHS).

At its heart, the parallel imports question for the United States asks whether this country has a policy preference to facilitate high pharmaceutical prices, and to avoid measures that may ameliorate those high prices.

The patent-owning originator industry argues that high prices are necessary for supporting research and development (R&D) that is vital to the American public. It is, however, inappropriate to correlate high pharmaceutical prices enabled by patents with the interests of the public in pharmaceutical innovation. First, originator pharmaceutical companies invest approximately 15-20% of their revenues in R&D.[32] The industry spends a higher percentage of its revenues on advertising and promotion, including direct to consumer advertising, than it does on R&D.[33] It is doubtful that downward pricing pressure created by parallel imports would result in a material decline in the funds available for investment in R&D, particularly as there is substantial room to reallocate budgets. Second, a very substantial part of pharmaceutical R&D funding in the United States comes from the National Institutes of Health with a budget of approximately $30

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[32] *See* U.S. International Trade Administration, *2016 Top Markets Report: Pharmaceuticals*, at 3.

[33] *See, e.g.*, Richard Anderson, *Pharmaceutical industry gets high on fat profits*, BBC News, Business, November 6, 2014, http://www.bbc.com/news/business-28212223, accessed January 15, 2017.

billion per year, most of which is directed toward pharmaceutical and pharmaceutical-related R&D.[34] There is no reason to think that this budget would diminish if pharmaceutical prices are lower. Just as likely, because federal government expenditures (such as through the Veterans Administration) on pharmaceuticals would decline, more funding would be available to and through NIH. Third, as explained in some detail in the Senate Staff Report on Sovaldi, industry practices with respect to pricing are not based on the interests of the

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[34] According to the National Institutes of Health:

"The NIH invests nearly $32.3* billion annually in medical research for the American people.

More than 80% of the NIH's funding is awarded through almost 50,000 competitive grants to more than 300,000 researchers at more than 2,500 universities, medical schools, and other research institutions in every state and around the world.

About 10% of the NIH's budget supports projects conducted by nearly 6,000 scientists in its own laboratories, most of which are on the NIH campus in Bethesda, Maryland.

*This amount reflects the sum of discretionary budget authority of $31,381 million received by NIH in FY 2016 under The Consolidated Appropriations Act of 2016, Public Law (P.L.) 114-113, $780 million derived from PHS Evaluation financing, and mandatory budget authority of $150 million for special type 1 diabetes research authorized per P.L. 113-93 and P.L. 114-10. Details regarding current appropriations are available from the Office of Budget."

U.S. Department of Health and Human Services, National Institutes of Health, *What we do*, https://www.nih.gov/about-nih/what-we-do/budget, accessed January 15, 2017. According to webpage, information last updated on April 4, 2016.

American public, but rather on the interests of capital markets, return on investment and executive compensation.[35] In the case of Sovaldi, the only evident constraint with respect to pricing was the upper limit of public health budgets. Fourth, as explained below, the price impact of parallel imports of patented pharmaceutical products into the United States is likely to be modest.

Pharmaceutical patent owning enterprises routinely sell their products on foreign markets at prices substantially below those secured on the U.S. market. The principal reason for this is that most governments outside the United States place some form of price control on pharmaceutical products.[36] Pharmaceuticals are essential to public health and are sold in markets that are affected by patent protection and other regulatory barriers.[37] Patient demand for important pharmaceutical products is "inelastic" in the sense that purchasers who materially depend on pharmaceutical

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[35] Staff of S. Comm. on Fin., 114th Cong., *The Price of Sovaldi and Its Impact on the U.S. Health Care System*, 106-10 (Comm. Print 2015).

[36] PHARMACEUTICAL PRICES IN THE 21ST CENTURY (Zaheer-Ud-Din Babar ed., Springer Int'l Publ'g Switz. 2015) (including country contributions); OECD Health Policy Studies, *Pharmaceutical Pricing Policies in a Global Market* (2008); U.S. Department of Commerce, International Trade Administration, *Pharmaceutical Price Controls in OECD Countries* (2004).

[37] Frederick M. Abbott, *Parallel Trade in Pharmaceuticals: Trade Therapy for Market Distortions*, in RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS 145-65, eds. I. Calboli & E. Lee, Edward Elgar Pub. (2016) [hereinafter "Abbott – Parallel Trade"]; and HHS Taskforce Report.

products for their well-being or life do not have a choice other than to procure the product.[38] Demand for life-saving products is limited only by the ability of the individual patient or public health system to pay. Absent government intervention in the pricing system, pharmaceutical patent owning companies may charge high (and in some cases excessive) prices for their products without suffering falloff in demand. Governments have a responsibility to use public resources responsibly, as well as to prevent excessive burdens on private patients.

In the United States, pharmaceutical patent owning companies are largely able to charge the prices that the "free market" will bear. Although state procurement authorities, the Veterans Administration and other governmental authorities use various approaches to secure better prices, there are not "price controls" as such, and the Medicare drug benefit system precludes the federal government by law from negotiating prices with the pharmaceutical industry.[39]

When the holder of a pharmaceutical patent in the United States sells or authorizes the sale of the corresponding patented product in a foreign country it may well be selling at a price below the price that would be

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[38] Sean Flynn, Aidan Hollis, and Mike Palmedo, *An Economic Justification for Open Access to Essential Medicine Patents in Developing Countries*, JOURNAL OF LAW, MEDICINE & ETHICS, 2009, Summer; 37(2): 184-208.

[39] Jim Hahn, *Federal Drug Price Negotiation: Implications for Medicare Part D*, Congressional Research Service, RL33782, January 5, 2007.

charged for the same product in the United States.[40] From a business standpoint, it is profitable to make the sale because the price for the patented pharmaceutical is typically far in excess of the cost of production and distribution. In the United States, for example, generic versions of previously patented drugs typically sell for a very substantial discount to the "on patent" price, and still at a profit.[41]

At least in the context of copyright, this Court has previously recognized that a first sale in the United States exhausts the intellectual property right regardless whether the relevant product is thereafter exported and re-imported.[42] There is no reason to expect that this result should be different with respect to patents so that under current law, notwithstanding the Federal Circuit decisions in *Jazz Photo* and in the instant case below, pharmaceutical products first sold in the United States and exported should not be subject to patent infringement actions upon re-importation.

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[40] *See* references in note 36, *supra*.

[41] *See, e.g.*, Letter from Government Accountability Office to Sen. Orrin Hatch, January 31, 2012, re: GAO-12-371R Savings from Generic Drug Use, stating: "On average, the retail price of a generic drug is 75 percent lower than the retail price of a brand-name drug."

[42] *Quality King Distributors, Inc. v. L'anza Research Intern., Inc.*, 523 U.S. 135, 118 S.Ct. 1125 (1998).

Under current U.S. law, the re-import of prescription pharmaceutical products manufactured in and exported from the United States requires the consent of the manufacturer.[43]

Under a rule of international exhaustion, wholesalers engaged in price arbitrage would seek to buy patented drugs outside the United States and import them into the United States to take advantage of price differentials.[44]

HHS and the FDA control the importation of pharmaceutical products into the United States through measures requiring that such products placed on the market in the United States must be approved for commercial marketing, and a requirement that foreign manufacturing facilities producing for export to the United States are inspected and approved by FDA inspectors.[45] The adoption by this Court of a rule of international exhaustion of patent rights would not affect these requirements. Exhaustion of patents in the United States requires that a product be placed on the market by or with the consent of the patent owner (although there may be limited exceptions to this consent requirement as in the case of compulsory licensing of a patent directed by a court as a remedy in an antitrust

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[43] *Lexmark International, Inc. v. Impression Products, Inc.*, 816 F.3d at 766.

[44] HHS Taskforce Report.

[45] *See, e.g.*, Federal Food, Drug, and Cosmetic Act, 21 U.S.C. §381(a); and HHS Taskforce Report.

proceeding). Should this Court adopt a rule of international exhaustion, patented pharmaceuticals imported pursuant to that rule would still be produced abroad with the consent or authorization of the U.S. patent owner at an FDA inspected and approved facility. Should parallel imports of patented pharmaceutical products be allowed under a rule of international patent exhaustion, it is reasonable to assume that HHS may as necessary or appropriate adapt its regulatory requirements to further address the circumstances of parallel importers.[46]

Congress has authorized HHS to allow imports by pharmacists and wholesalers of "prescription drugs" from Canada,[47] though so far HHS has decline to exercise this authority.[48] There is also provision for individual waivers for imports from Canada by individuals for personal use, and in other circumstances deemed to be appropriate.[49]

It is unlikely that products supplied to foreign markets will dramatically alter pricing practices in the United States because of supply and demand limitations and controls.[50] Assume for the sake of argument, given relative market size, that the volume of demand

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[46] *See*, for example, requirements under 21 U.S.C. §384(d).

[47] 21 U.S.C. §384(b).

[48] *See* HHS Taskforce Report.

[49] 21 U.S.C. §§381(d)(2) & 384(j).

[50] Regarding the complex elements of international trade in pharmaceuticals, *see* Abbott – Parallel Trade. Data analysis in HHS Taskforce Report.

for a particular patented product is roughly equivalent in the aggregate in the United States and the European Union.[51] Assume further that a pharmaceutical originator is required by price controls, in the aggregate, to sell in the European Union at a 30% discount to the price charged in the United States.[52] If wholesale arbitrageurs attempt to buy the entire stock of patented pharmaceutical products placed on the market in the EU and ship them to the United States, consumers in Europe (*e.g.*, hospitals, patients, insurance companies, public health authorities) would need to seek a resupply for the entire stock. Or, consumers in Europe would go without medicines.

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[51] According to recent data from the European Federation of Pharmaceutical Industries and Associations (EFPIA), the combined revenues from pharmaceutical sales in the United States and Canada were more than double European pharmaceutical sales in 2015 (48.7% of world market and 22.2% of world market, respectively). These numbers reflect dollar cost rather than volume, and so reflect pricing differentials as well as other factors. The population of the European Union is somewhat higher than the combined population of the United States and Canada. European Federation of Pharmaceutical Industries and Associations (EFPIA), The Pharmaceutical Industry in Figures, Key Data 2016, at 14, www.efpia.eu, accessed January 15, 2017.

[52] The international Trade Administration Report on Pharmaceutical Price Controls in OECD Countries based on 2003 data, suggested that in the absence of OECD price controls, revenues from on-patent sales would increase 25 to 38%. This excluded a group of lower income OECD countries. We can infer from this that patented drug prices in Europe are in the order of magnitude of 30% lower than in the United States (i.e., if removing price controls would increase revenues in that range). U.S. Department of Commerce, International Trade Administration, *supra* note 36, at pages 19-20.

It seems highly doubtful that wholesalers in Europe would be able to purchase the entire stock of medicines available there because of the existing relationships between procurement authorities and suppliers. Some probably modest percentage of such products could be purchased and exported to the United States. Arbitrageurs would mark up the prices to provide themselves a profit. Ultimately, some modest percentage of pharmaceutical products destined for Europe might be available on the market in the United States. This is consistent with the conclusion reached by the HHS Taskforce on Drug Importation in its 2004 report, which took account of a variety of pharmaceutical supply and regulatory constraints.[53] Even then because of the complex and concentrated way the pharmaceutical distribution structure in the United States is organized, there are a number of hurdles to overcome in selling those products in the United States market.[54] Ultimately, there would probably be some downward pressure on prices in the United States, but

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[53] The Report stated: "We find that savings from legalizing drug imports would likely be a small percentage of total drug spending, a finding similar to that of the Congressional Budget Office." HHS Taskforce Report, at 67.

[54] *See* 2015 MDM Market Leaders, Top Pharmaceuticals Distributors, stating: "Three companies generate about 85% of all revenues from drug distribution in the United States," http://www.mdm.com/2015-top-pharmaceuticals-distributors, accessed January 15, 2017; and U.S. Department of Justice and Federal Trade Commission, *Competition Issues in the Distribution of Pharmaceuticals, Contribution from the United States*, OECD Global Forum on Competition, DAF/COMP/GF/WD(2014)43, February 10, 2014.

not the 30% difference between U.S. prices and European prices.

The originator pharmaceutical industry has taken a great interest in blocking parallel imports and its *Amici* are likely to do so before this Court. The interests of the American public and the originator pharmaceutical industry should not be conflated. The American public has a more compelling interest in mechanisms that can restrain originator pharmaceutical pricing than the industry does in maintaining its present profit margins.

B. Voluntary discrimination in favor of low income countries

The originator patent owning pharmaceutical companies argued as early as the late 1990s that a rule of international exhaustion would preclude them from continuing to sell medicines in low income countries at discounted prices because of the potential for re-export to high income countries,[55] although when those arguments were first made it was questionable whether the industry in fact offered patented medicines for sale at low prices in low income countries.[56] Today, a number

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[55] *See, e.g.*, Harvey E. Bale, Jr., *The Conflicts Between Parallel Trade and Product Access and Innovation: The Case of Pharmaceuticals*, 1 JOURNAL OF INTERNATIONAL ECONOMIC LAW 637 (1999).

[56] This *Amicus* first raised the issue of discriminatory pricing in favor of low income countries at a meeting on competition law at UNCTAD in 1999, with a substantial number of delegations from Africa present. African delegates attending that meeting expressed surprise at the position of the pharmaceutical originators,

of originator companies are selling or licensing for sale certain patented products at discounted prices in low income countries.[57]

As a matter of public health policy, the United States should not discourage discount pricing of patented pharmaceuticals in favor of low income countries.[58] A rule of international exhaustion for the United States does not interfere with such pricing practices. Patent owners and licensees selling under discount programs in favor of low income countries can and should be allowed to restrict exports of the supplied products by contract. There is no need to provide a cause of action for patent infringement regarding importation into the United States.

Pharmaceutical products sold at discount prices to low income countries are typically purchased by government public procurement authorities, often

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stating that to their knowledge discounted pharmaceuticals were not available in their countries. That discussion was noted in Frederick M. Abbott, *Second Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of the Exhaustion of Intellectual Property Rights and Parallel Importation* (September 6, 2000), available at SSRN: https://ssrn.com/abstract=1921856.

[57] *See, e.g.*, Medicines Patent Pool, Five Years of Patent Pooling for Public Health, Annual Report 2015, and more recent updates on licensing arrangements at http://www.medicinespatentpool.org/, accessed January 15, 2017.

[58] Governments and patient populations in low income countries typically lack the financial means to purchase patented pharmaceutical products at prices charged in higher income countries. Prices of generic products sold at marginal cost are often unaffordable without subsidization.

supported by third country financial assistance.[59] Government procurement authorities purchasing under such contracts do not have an interest in the re-export of the subject products needed to address local requirements, including because procurement is monitored by external funders.[60] Even assuming some margin for wrongdoing among procurement authorities, because the actors in this arena are repeat players, it is unlikely that large-scale diversion of such products would take place.

In addition, if there are difficulties enforcing contractual restraints on exports, governments in low income countries can impose legal restrictions on exports for the purpose of protecting public health programs. This would be permitted under WTO rules, at the least by use of the General Agreement on Tariffs and Trade

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[59] *See, e.g.*, The Global Fund, Sourcing & Management of Health Products, stating:

> "Over the 2014-2016 period, the Global Fund will provide more than US$10 billion to countries for programs to combat the three diseases and help build health systems. Approximately half of that amount will go toward the procurement and management of health products. In 2013, that amounted to almost US$1.8 billion." http://www.theglobalfund.org/en/sourcing/, accessed January 15, 2017.

[60] *Id.*, The Global Fund, Monitoring and Evaluation, http://www.theglobalfund.org/en/me/, http://www.theglobalfund.org/en/sourcing/, accessed January 15, 2017. *See also, e.g.*, U.S. Department of State, Office of Inspector General, U.S. Agency for International Development, *Worldwide Audit of USAID's Procurement and Distribution of Commodities for the President's Emergency Plan for AIDS Relief*, Audit Report No. 9-000-09-011-P, August 13, 2009.

(GATT) Article XX(b) exception in favor of protecting public health.[61] If the potential for imports of low priced U.S.-patented pharmaceutical products from low income countries becomes a genuine concern, Congress could act to expressly limit such imports under the GATT Article XX(b) exception as a measure necessary to protect public health in those low income countries. The WTO 30 August 2003 waiver in favor of compulsory licensing for export recognizes the importance of precluding diversion of products imported under special programs, obligating beneficiary members to take measures to prevent re-export.[62] None of these approaches requires recognition of post-sale restrictions based on patents. Defense of discriminatory pricing in favor of low income countries does not require the United States or any other country to forgo the general benefits of a rule of international patent exhaustion.

CONCLUSION

Prior to the decision of the Federal Circuit in *Jazz Photo*, preponderant authority in the United States, including by this Court, pointed toward a rule of international exhaustion of patent rights. Application of the

[61] General Agreement on Tariffs and Trade 1994, April 15, 1994; Marrakesh Agreement Establishing the World Trade Organization, Annex IA, art. XX(b), 1867 U.N.T.S. 187 (1994).

[62] WTO, Decision of 30 August 2003, Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health, WT/L/540, 2 September 2003, paras. 4 & 5. The waiver also requires members to have available legal means to prevent importation of products improperly diverted from the system.

first sale rule to U.S. patents when a first sale takes place outside the United States involves the application of U.S. law within the United States. There is no impingement on foreign law or foreign prerogative. International agreements to which the United States is a party permit adoption of a rule of international exhaustion.

Amici representing the electronics industry and other industry sectors are presenting arguments supporting international exhaustion as important to facilitating efficient global supply chains, reducing prices to American consumers and for other reasons. This *Amicus* supports that "general case."

A rule of international exhaustion of patent rights will exert downward pressure on pharmaceutical prices in the United States. This downward pressure is likely to be relatively modest in light of the nature of the global pharmaceutical supply market. Nonetheless, it will be a step in the right direction. This Court should approach with great caution arguments advanced by the originator pharmaceutical industry about the potential negative impact of a rule of international exhaustion. The decision of the Federal Circuit below should be reversed with respect both to its rejection of international exhaustion of patent rights, and to its sustaining of patent-based post-sale restrictions. This

Court should adopt a rule of international exhaustion of patent rights for the United States, and preclude post-sale restrictions based on patents.

Respectfully submitted,

PROF. FREDERICK M. ABBOTT
FLORIDA STATE UNIVERSITY
COLLEGE OF LAW
425 W. Jefferson St.
Tallahassee, FL 32301
(850) 644-1572
fabbott@law.fsu.edu

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Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the
United States Court of Appeals
For The Federal Circuit

BRIEF FOR AMICUS CURIAE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION SUPPORTING NEITHER PARTY

MARK L. WHITAKER
President
AMERICAN
INTELLECTUAL
PROPERTY LAW
ASSOCIATION
1400 Crystal Drive
Suite 600
Arlington, VA 22202
(703) 415-0780

KRISTIN L. YOHANNAN
Counsel of Record
MILBANK, TWEED, HADLEY
& MCCLOY LLP
1850 K Street, NW
Suite 1100
Washington, DC 20006
(202) 835-7500
kyohannan@milbank.com

Counsel for Amicus Curiae

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INTEREST OF AMICUS

The American Intellectual Property Law Association (AIPLA) is a national bar association of approximately 14,000 members who are primarily lawyers engaged in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property, and our mission includes providing courts with an objective analysis to promote an intellectual property system that stimulates and rewards invention while balancing the public's interest in healthy competition, reasonable costs, and basic fairness.[1]

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[1] In accordance with Supreme Court Rule 37.6, amicus curiae states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the amicus curiae or its counsel. Specifically, after reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter, (ii) no representative of any party to this litigation participated in the authorship of this brief, and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

AIPLA has no stake in any of the parties to this litigation or in the result of this case other than its interest in seeking the correct and consistent interpretation of the law as it relates to intellectual property issues.[2]

SUMMARY OF ARGUMENT

This case presents two fundamental but distinct questions on the doctrine of patent exhaustion. First, whether a conditional sale, which specifies certain conditional post-sale restrictions, transfers title to a patented item but avoids patent exhaustion such that violations of such post-sale restrictions are enforceable through a patent infringement remedy. Second, whether a U.S. patent owner may authorize the sale of a patented article in a foreign country, either under a foreign patent or otherwise in accordance with foreign law, while reserving its exclusive rights under U.S. patent law.

As to the first question, the Supreme Court has long recognized that patentees and their contracting parties should be free to sell products or enter into licenses that reflect the bargain they have reached for the particular rights they wish to offer and accept. In addition, this Court in *Quanta* purposefully distinguished cases that involved effective conditional sales, thus, confirming that only

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[2] In accordance with Supreme Court Rule 37.3(a), both Petitioner and Respondent have consented to the filing of this brief. Petitioner did so by with a consent email to AIPLA, and Respondent did so by filing a blanket consent letter with the Court.

unrestricted sales exhaust patent rights. Finally, conditional sale jurisprudence is also supported by sound policy and economics. Nothing in either the patent statute or in judicial decisions suggests that a patentee parts with all patent rights upon the first sale of a patented article if the transfer is explicitly restricted in a way that does not violate other substantive law. The realities of the market and the nature of patent rights also require flexible sale and licensing arrangements. A patent system that allows for more flexibility will not only facilitate innovation but also will produce efficient commercial results.

As to the second question, this Court specifically addressed the issue of whether foreign sales exhaust U.S. patent rights in *Boesch*. In that case, this Court stated that foreign sales do not extinguish U.S. patent rights because such rights are territorial and cannot be compromised by foreign activity. *Kirtsaeng* is a copyright case and therefore is not controlling precedent in this case. Moreover, there are many differences between the patent and copyright laws, ranging from the requirements to obtain protection to the enforcement mechanisms provided. These differences require each statute to be analyzed separately and suggest the exercise of caution against readily applying copyright precedent to patent issues. In addition, Congress' resources and proficiency in international relations make it best positioned to consider these issues in the broader context of their effect on U.S. foreign policy. Finally, upholding the common law rule against international patent exhaustion is consistent with numerous public policy goals, such as ensuring

access to patented pharmaceutical, medical, and agricultural products in developing nations.

To ensure the effective use of intellectual property and the adequate protection of patent rights, AIPLA urges this Court to reaffirm its precedent on U.S. patent exhaustion and on conditional sales and license agreements containing lawful conditions.

ARGUMENT

A fundamental precept of the United States economy is that full and free competition in the marketplace is the most effective path to economic growth. Paul J. McNulty, Economic Theory and the Meaning of Competition, 82 Q. J. ECON. 639, 639 n.1 (1968). One exception to that basic tenet is the principle that innovation and creativity require special treatment in order to thrive, and this competing ideal is embodied in the patent and copyright laws. Those laws find their authority in the Constitution's provision of limited rights of market exclusivity for inventions and works of authorship. Thus, the Constitution itself recognizes this exception to the basic principle of free competition. *See* U.S. CONST. art. 1, § 8, cl. 8.

The tension between free competition and the exclusive rights of intellectual property is apparent in various areas of law but is particularly evident in the common law exhaustion doctrine. The Copyright Act's "first sale" provision explicitly embodies the exhaustion of ownership doctrine, 17 U.S.C. § 109(a) (2012) ("[T]he owner of a particular copy or

phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.") While the Patent Act contains no such explicit provision, the exhaustion doctrine also generally applies to U.S. patent law with respect to unconditional sales. *See Adams v. Burke*, 84 U.S. (17 Wall.) 453, 457 (1873) ("[W]e hold that in the class of [patented] machines or implements ... when they are once lawfully made and sold, there is no restriction on their use to be implied for the benefit of the patentee or his assignees or licensees.").

However, because patent exhaustion is not codified in the Patent Act, courts have avoided making blanket decisions that upon a sale of an article, all patent rights are exhausted. As explained below, certain circumstances dictate that patent exhaustion does not apply.

I. A CONDITIONAL SALE THAT SPECIFIES POST-SALE RESTRICTIONS AVOIDS PATENT EXHAUSTION

A. The Federal Circuit's Treatment Of Post-Sale Restrictions Is Consistent With Supreme Court Precedent

There is no conflict between the Federal Circuit's *Lexmark* decision and this Court's patent exhaustion precedent. This Court for many years has instructed that, upon the first *authorized* sale—by the patent owner or by a licensee—of a patented article, the patent owner's statutory right to exclude is exhausted as to that article. *U.S. v. G.E. Co.*, 272

U.S. 476, 489 (1926). As a result of this first sale, any subsequent use or sale of the patented article is not an infringement of the corresponding patent. *Id.* The rationale underlying the exhaustion doctrine is that the patent owner, having received due consideration in the sale, passes full title to the purchaser and surrenders any rights in the future use or distribution of the invention. This Court, however, has never held that rights specifically withheld in a transaction are nonetheless transferred and exhausted.

The Federal Circuit's decision below is in accord with patent law principles declared by this Court's exhaustion decisions. The law grants a patent holder the "right to exclude others from making, using, offering for sale, or selling the invention ... ." 35 U.S.C. § 154(a)(1). As this Court indicated in *U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942), "[t]he declared purpose of the patent law is to promote the progress of science and the useful arts by granting to the inventor a limited monopoly, the exercise of which will enable him to secure the financial rewards for his invention." *Id.* at 250. As such, this Court has long recognized a patent owner's freedom to contract to receive the full value of its patent rights. *Adams* 84 U.S. at 456 (1873) (stating that the "right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.").

Consistent with these general principles, however, the Court has also stated that a patentee's restrictions upon a licensee's sales are valid "provided the conditions of sale are normally and

reasonably adapted to secure pecuniary reward for the patentee's monopoly." *G.E.*, 272 U.S. at 490 (conditions imposed by the patentee and agreed to by the licensee that are not illegal will be upheld). Moreover, because the decision below favors the enforcement of express restrictions not in restraint of trade, it correctly aligns with Supreme Court decisions that have enforced such restrictions. As this Court explained, patent rights are exhausted only after authorized and *unconditional* sales. *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 548 (1872) (purchaser may use article until worn out or may repair or improve just as with any other kind of property where sale is without any conditions); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917) (right exhausted by a "single, unconditional sale").

Exhaustion, however, does not apply where a sale is conditional and thus further resale is unauthorized. Indeed, the Court has historically permitted patent owners to enter into restricted, conditional licenses that grant only limited authority without exhausting all rights in the licensed patents. *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 126-27 (1938) (upholding enforcement of field-of-use restrictions through licenses divided between those who could sell for commercial purposes and those who could sell for home purposes); *Mitchell*, 83 U.S. at 549-50 (recognizing patent owner might grant manufacturer license to make patented invention limited to the original patent term and expressly excluding any extension of the term).

Contrast *Mitchell* with *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852), which illustrates the relationship between exhaustion and conditional licenses. In *Bloomer*, the unconditioned license gave rise to exhaustion. *Id.* at 549 (1852) (holding Congress' extension of a patent term did not affect the rights of purchasers from a patent licensee who took title without any restriction). In *Mitchell*, the conditioned license prevented exhaustion. 83 U.S. at 549 (holding that Mitchell could enjoin purchaser from using patented machines during extended term because license was limited to original patent term).

Courts have occasionally held certain types express restrictions unenforceable. The reasoning for such decisions was not the mere existence of those restrictions, but the restrictions' flagrant anticompetitive nature. For example, this Court relied on the patent exhaustion doctrine to conclude that patentees could not tie the sale of unpatented articles to the use of patented ones. *Motion Picture*, 243 U.S. at 518. Similarly, the Court held that price fixing conditions in the licensing arrangement imposed by the patent owner for the resale of the patented products were outside the scope of the patent monopoly. *Univis*, 316 U.S. at 252-54.

Finally, while the decision below involves a restricted sale to an "end purchaser" of the patented article rather than a restricted license to an intermediate manufacturer, Supreme Court cases suggest that the manufacturing licensee versus purchaser distinction is not dispositive with regard to application of the exhaustion doctrine. *Mitchell*, 83 U.S. at 550; *Gen. Talking Pictures*, 305 U.S. at

127. If a patentee can temporally divide rights to make and sell its invention by express restrictions in a licensing agreement, it should also be able to sell limited use rights by express provisions in a sales contract. In other words, a patentee should not have fewer options when selling its invention itself than when it goes through an intermediate manufacturer or licensee.

Indeed, this Court expressly held that those conditions or restrictions pass on to purchasers of the licensed products and has allowed infringement suits against purchasers. In *Mitchell*, which involved a suit by the assignee of patent rights against a purchaser, the Court found that a licensee is not empowered to convey a license to purchasers beyond the limits of its own license grant. 83 U.S. at 550. *Mitchell* unquestionably upholds the right of patent owners to place conditions on the sale of patented machines, either directly themselves or indirectly through their licensees. In *General Talking Pictures*, it was the ultimate purchaser as well as the licensee who were found to have infringed the patent. 305 U.S. at 127. The Court upheld "home use only" restrictions placed on the ultimate purchaser, holding that the purchaser was "in no better position than if it had manufactured the amplifiers itself without a license. It is liable because it has used the invention without [a] license to do so." *Id.*

Accordingly, there is nothing in the *Lexmark* decision below that conflicts with Supreme Court precedent. This Court should continue this line of authority supporting the freedom of a patent owner,

either directly or indirectly through its licensees, to condition the sale of a patented article.

B. *Quanta* Is Not Inconsistent With The Decision Below

The Petitioner contends that this Court's decision in *Quanta* dictates that Lexmark's conditional sale exhausts its patent rights. *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008). But *Quanta* does not address the conditional sale issue. Rather, this Court held that LGE's patent rights were exhausted due to an unconditional license. *Quanta*, 553 U.S. at 636-37. The Court thus declined the opportunity to speak on general principles of exhaustion in favor of a narrow contract-based ruling.

The framing of the question presented suggests how the Court viewed the facts of *Quanta* and the issues to be decided: "[i]n this case, we decide whether patent exhaustion applies to the sale of components of a patented system that must be combined with additional components in order to practice the patented methods." *Id.* at 621. Following the logic of *Univis*, in which the "sufficient embodiment" test for exhaustion was first developed, the Court held that Intel's authorized sale of components that "sufficiently embodie[d]" LGE's patents terminated LGE's patent rights. *Id.* at 630-35. Hence, LGE could not enforce the limitations against Quanta and the other computer manufacturers as patent infringement claims. *Id.*

Quanta does not stand for a broad rule that all post-sale use restrictions are prohibited once goods are placed into the ordinary stream of commerce.

This Court spent considerable time examining the details of the LGE–Intel transactions to see if any conditions existed. *Quanta*, 553 U.S. at 636-37. "Exhaustion is triggered only by a sale authorized by the patent holder." *Id.* at 636. Finding that no conditions were placed on the sale, it was easy for the Court to rule that the license authorized Intel's sale and therefore exhausted LGE's patent rights. *Id.* at 637. Because the Court's conclusion depended on the *absence* of a condition limiting Intel's ability to sell its products, the *presence* of such a condition would have allowed LGE to assert its patent rights against Quanta.

In addition, the Court's analysis of the LGE-Intel licensing agreement suggests that future licenses can be drafted in ways that avoid patent exhaustion and preserve a licensor's right to sue. *Quanta* makes clear that conditions drafted to avoid patent exhaustion must be explicitly described in the body of the licensing agreement. *Id.* at 636-37 ("[n]othing in the License Agreement restricts Intel's right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts"; "provision requiring notice to Quanta appear[s] only in the Master Agreement, and LGE does not suggest that a breach of that agreement would constitute a breach of the License Agreement"; "exhaustion turns only on Intel's own license to sell products practicing the LGE Patents").

More importantly, *Quanta*'s exhaustion analysis pointed out that unlike the license at issue in *General Talking Pictures*, LGE's license did not place conditions on Intel's sales. *Id.* at 636. In doing

so, the Court embraced the distinction between conditional and unconditional sales that underlies *General Talking Pictures,* confirming that only unconditional sales exhaust patent rights. Because *Quanta* does not overrule or even question *General Talking Pictures* but rather distinguishes it, the conditional sale doctrine is still good law.

C. Enforcing Properly Conditioned Sales Or Licenses Makes Good Policy Sense

Sound public policy supports enforcing conditioned sales or limited licenses of patented goods. First, it is well-settled that a patentee is not required to convey the totality of its patent rights in any single transaction. *Adams*, 84 U.S. at 456. Patentees can sell distinct "sticks" from their "bundle" of property interests without losing the remainder of the "sticks." *G.E.*, 272 U.S. at 489-90. From the purchaser's perspective, if it neither needs nor wants to pay for the patentee's entire patent monopoly, no rule should require it.

In addition, allowing parties significant freedom to contract regarding rights to make, use, or sell patented inventions permits more efficient pricing schemes as well as greater quality control over the use of the patented technology. Today's economy is complex and increasingly disaggregated. Affording an innovator the flexibility to negotiate patent licenses directly with various commercial entities or end purchasers to obtain the full reward to which it is entitled encourages coordination between the patent holder and the ultimate beneficiary of the patented technology. For example, field-of-use restrictions can facilitate the ability of the patentee

to exploit its patent rights in different markets, technologies, or applications, with end users benefiting from this wider exploitation. 2 David Epstein, *Eckstrom's Licensing in Foreign and Domestic Operations* § 8E:22 (2015) (describing pro-competitive effects of field-of-use licensing).

Providing the patentee with greater quality control in finished products incorporating the patentee's technology also has advantages. Poor quality or defective end products that are introduced into the consumer market may harm the desirability of the patentee's technology in the marketplace. Allowing the patentee to exercise quality control over the end product through contractual limitations in licensing agreements or sale contracts can guide the use of its technology and how that technology develops. Because of these benefits, the law should allow parties freedom of contract with regard to the right to use patented inventions.

Further, there is a broad practice among owners of intellectual property in different industries that relies on the ability to condition sales of patented goods without exhausting their patent rights. This Court should not lightly disregard industry custom and economically efficient practices. For example, in the electronics industry, a patentee may wish to sell a patented microprocessor at its highest price for its optimal use in high-end research computers and charge a lower price for home use computers. Not allowing the patentee to charge differential prices based on use would either increase the costs of all systems using the technology or decrease the incentive to develop new and better processors

because the patentee would have to forego compensation for the full value of the innovation.

Developments in biotechnology present another example of why good public policy should permit patentees to sell restricted rights to use a patented invention. Patent protection of biotech inventions is often desirable because it has the potential to bring important developments to fields such as agriculture and medicine. *NIH: Moving Research from the Bench to the Bedside - Hearings Before the Subcomm. on Health of the H.R. Comm. on Energy and Commerce*, 108th Cong. 46-53 (2003), http://www.gpo.gov/fdsys/pkg/CHRG-108hhrg88429/pdf/CHRG-108hhrg88429.pdf (statement of Phyllis Gardner, Senior Associate Dean, Stanford University). The self-replicating abilities of living organisms raise concerns about how a patentee can recapture the cost of bringing a new biotech invention to the market. *Bowman v. Monsanto,* 133 S. Ct. 1761, 1768-69 (2013). Allowing the sale of restricted rights to use patented biotech inventions, such as genetically modified crop seeds or biological medicines, is one way to encourage investment in these areas while providing access to, for example, small scale farmers or individual patients who could not afford to pay large fees for unlimited use rights.

Finally, under this Court's interpretation of the exhaustion doctrine, there is no risk of surprise and no unfairness to downstream companies or end purchasers. A sale of a patented article to a downstream entity or end purchaser can be conditional only if there has been an express notice to the purchaser. *General Talking Pictures*, 305

U.S. at 127 (sale contained express conditions therefore no patent exhaustion). Courts have long recognized a host of legal and equitable doctrines to protect purchasers of patented goods from unfair surprise and charges of infringement when patentees have led the purchasers to reasonably believe that no patent infringement will lie.

This Court should not disregard industry custom and economically efficient practices, as well as over one hundred years of patent exhaustion precedent. It should leave the scope of the conditional sale doctrine intact because it is the most efficient legal framework and will serve the core purposes of patent law, while helping to "promote the progress of science and the useful arts."

II. THE SUPREME COURT HAS ALREADY DETERMINED THAT THE SALE OF A U.S.-PATENTED ARTICLE ABROAD DOES NOT EXHAUST U.S. PATENT RIGHTS

A century old Supreme Court precedent directly addresses international patent exhaustion. The question before the Court in *Boesch v. Graff*, 133 U.S. 697, 702 (1890), was "whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent." The Court concluded that such an importation subjected the dealer to an infringement action. *Id.* at 702-03. The Court stated:

> United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.

Id. at 701-03; *see also Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 664-65 (1894). This ruling announced a doctrine of national patent exhaustion.

The Federal Circuit succinctly summed up the logic behind national patent exhaustion:

> The [patent] statute gives patentees the reward available from American markets. A patentee cannot reasonably be treated as receiving that reward from sales in foreign markets, and exhaustion has long been keyed to the idea that the patentee has received its U.S. reward.

Lexmark at slip op. 71. Moreover, the Patent Act repeatedly speaks about acts taking place "in the United States." *See, e.g.* 35 U.S.C. §§ 154(a)(1), 271 (a). Therefore, the sale of products abroad, not under a U.S. patent, cannot exhaust the U.S. patent

right in those products because the act did not take place "in the United States."

A. *Kirtsaeng* Did Not Address Patent Exhaustion And Did Not Change The Rule of National Patent Exhaustion Set Forth in *Boesch*

Petitioner contends that this Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013) is controlling and requires a finding of international patent exhaustion. This is incorrect. This Court's interpretation of Section 109(a) of the Copyright Act in *Kirtsaeng* announced a rule of international exhaustion for copyrights only. Section 109(a), which reflects the first sale doctrine, grants the owner of a particular copy "lawfully made under this title" the right to dispose of that copy without the copyright owner's permission. 17 U.S.C. § 109(a).

The *Kirtsaeng* decision found no geographical limitation in the statutory phrase "lawfully made under this title" or in the statute's history and in its common law development. The Court compared Section 109(a)' language with that of its pre-amendment predecessor and found that the amendment reflected in Section 109(a) provided no indication that Congress sought to introduce a geographic restriction into Section 109(a). *Kirtsaeng*, 133 S. Ct. at 1360-61.

The Court examined the common law development of the first sale doctrine, noting the presumption that Congress intended to preserve the common law's substance when it is codified by

statute. *Id.* at 1363. The Court traced the first sale doctrine's "impeccable historic pedigree" back to Lord Coke's 17th-century refusal to allow restraints on the alienation of chattel. *Id.* Finding no geographic restriction in either the Court's last decision before the Copyright Act's 1909 codification or Section 109(a)'s predecessor, the Court determined that Lord Coke's principles were still followed at the time of codification.

Absent from the Court's *Kirtsaeng* opinion on Section 109(a)'s scope is an analysis of patent exhaustion, and rightfully so as the case dealt with a copyright-specific question. The Court did not refer to the Patent Act or to any of its provisions, either directly or by analogy. Nor did it suggest in any way that its holding should be applied outside the context of the Copyright Act.

Not only does *Kirtsaeng* interpret copyright law's first sale doctrine instead of patent law's exhaustion doctrine, but also it is clear that copyright cases are not controlling for patent issues, and vice versa. Support for the distinction between copyright and patent law dates back to at least 1907, when the Sixth Circuit recognized:

> There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes that the cases

> which relate to the one subject are not altogether controlling as to the other.

John D. Park & Sons Co. v. Hartman, 153 F. 24, 28 (6th Cir. 1907). The Supreme Court endorsed this distinction between patents and copyrights the following year, stating:

> If we were to follow the course taken in the argument, and discuss the rights of a patentee, under letters patent, and then, by analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that character shall be presented to this court.

Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 345 (1908); *see also Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 13-14 (1913) (patent statute gives right to exclude others from use, copyright statute does not); *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984); *Eldred v. Ashcroft*, 537 U.S. 186, 216 (2003). Therefore, even if *Kirtsaeng* discussed patent exhaustion—which it did not—it still would not be controlling precedent for patent issues.

B. The Significant Differences Between The Patent And Copyright Acts Require Different Judicial Treatment For Exhaustion

Patent law contains no analogous provision to Section 109(a) of the Copyright Act, the statutory interpretation of which formed the foundation for the Court's opinion in *Kirtsaeng*. Instead of a statutory provision, patent exhaustion is a creature of judge-made common law. *Boesch*, 133 U.S. at 701-03. The common law on this issue has continued to evolve over the last century, something that the first sale doctrine could not do because the Copyright Act codified Lord Coke's principles in 1909. Transporting an analysis of copyright's first sale doctrine, which is frozen in 1909, to the still-evolving law of patent exhaustion is incongruous. This is especially so because revising the patent laws did not provide Congress the opportunity to address the common law doctrine of patent exhaustion in the same way amending the Copyright Act afforded it the chance to change copyright's first sale provision.

There are also significant differences in the legal protections offered by the patent and copyright laws that countenance against uniform treatment on the issue of exhaustion. A copyright exists in any country once fixed in a tangible medium. Because of this framework, the rights arise from the work itself. Patent protection, however, is not even available in every country. The scope of protection for a patent's claims vary widely depending on the jurisdiction. Copyrights are also spared from the jurisdiction-

specific examination process that patent applications must undergo in most countries.

Moreover, the doctrines of first sale and patent exhaustion are not directly aligned. Section 109(a) conveys certain rights to *buyers/owners* of a copy of a copyrighted work. 17 U.S.C. § 109(a) ("owner of a particular copy ... lawfully made ... is entitled, without the authority of copyright owner, to sell or otherwise dispose of the possession of that copy"). In contrast, patent exhaustion evaluates whether the *patentee* (not the purchaser) has been adequately compensated by the sale of her invention. *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001) (exhaustion of patent right depends on whether patentee has received reward for use of article upon sale). The rationale for a statutory provision protecting the rights of downstream users of intellectual property is unlikely to be analogous to a common law doctrine ensuring proper compensation for the producer of intellectual property. This Court should avoid adopting carte blanche the analysis of a statutory provision that is not parallel to that of patent exhaustion.

In addition to the substantives difference between the two doctrines, territoriality in patent statutes has "an impeccable historic pedigree" of its own that does not favor a scheme of international exhaustion. The history of territoriality distinguishes patent law from the Copyright Act, whose provision granting exclusive rights is silent on geographic restrictions. 17 U.S.C. § 106. Contrary to the Copyright Act, as early as 1790, Congress

specifically included a geographic restriction on infringement in the patent laws. Patent Act of April 10, 1790, ch. 7, § 4, 1 Stat. 109, 111 ("That if any person or persons shall devise ... or vend *within these United States*, any art, manufacture, engine, machine or device ... the sole and exclusive right of which shall be so as aforesaid granted by patent to any person or persons ... without the consent of the patentee ... every person so offendin[g] shall forfeit and pay to the said patentee ... such damages as shall be assessed by a jury.") (emphasis added). Congress removed this provision in 1836, but the law continued to restrict assignments of exclusive rights to the territorial boundaries of the United States. Patent Act of July 4, 1836, ch. 357, § 11, 5 Stat. 117, 121. In the 1870 amendments, Congress reinserted the geographic limitation on infringement. Patent Act of July 8, 1870, ch. 230, § 22, 16 Stat. 198, 201 ("[E]very patent shall ... grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use, and vend the said invention or discovery *throughout the United States and the Territories thereof*.") (emphasis added). Removing the territoriality requirement and then unequivocally adding it back in demonstrates Congress' intent that the patent laws be geographically confined within the borders of the United States.

Congress' commitment to territoriality has not waivered since. Both the Patent Act of 1952 and the America Invents Act place geographic restrictions on the patentee's right to exclude. Patent Act of July 19, 1952, ch. 950, § 271(a), 66 Stat. 792, 811; 35 U.S.C. § 271(a). Other sections of the Patent Act

also reinforce patent law's territorial limitation. Section 271(f), for example, creates liability for entities who supply *from the United States* certain uncombined components of a patented invention in a way that induces their combination in a manner that would be infringing if it occurred within the United States. 35 U.S.C. § 271(f). Section 271(g) contemplates liability for importing *into the United States* a product made abroad by a process patented in the United States. 35 U.S.C. § 271(g).

Courts have also recognized patent law's territorial limits for over a century. Beginning in 1856, this Court noted the geographic boundaries of patent law's reach: "The power thus granted [by the Constitution to establish the patent laws] is domestic in its character, and necessarily confined within the limits of the United States." *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1856). With this understanding, the Court noted that the patentee could not recover from the defendant because the accused sailing rig was installed on a French vessel in France and was not in use while the ship was docked in Boston:

> [T]hese acts of Congress do not, and were not intended to, operate beyond the limits of the United States; and as the patentee's right of property and exclusive use is derived from them, they cannot extend beyond the limits to which the law itself is confined. And the

> use of it outside of the jurisdiction of the United States is not an infringement of his rights, and he has no claim to any compensation for the profit or advantage the party may derive from it.

Id. at 195-96.

If a claim of infringement of a U.S. patent does not apply to extraterritorial uses, and the patentee is not entitled to receive a royalty under the U.S. patent for a non-U.S. sale, then an extraterritorial sale by the patentee cannot eviscerate its U.S. patent rights by triggering exhaustion. The Court in *Boesch* recognized this injustice when it held that sales of foreign provenance did not affect U.S. patent rights. *Boesch*, 133 U.S. at 701-03. Given Congress' longstanding support of patent territoriality, now is not the time to change course.

C. Creating International Patent Exhaustion Would Require A Change In Foreign Policy That Only Congress Should Effect

For years, the United States has staunchly advocated against international exhaustion in international agreements, often overcoming stiff resistance. Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion and a Few Other Things*, 21 MICH. J. INT'L L. 333, 350-51 (2000). But

international exhaustion would be viable if this Court were to overrule *Jazz Photo*.

In the late 19th century, the United States acceded to the Paris Convention for the Protection of Industrial Property, which is one of the most widely adopted treaties in intellectual property. The Paris Convention contains a provision explicitly retaining national patent rights:

> When a product is imported into a country of the Union where there exists a patent protecting a process of manufacture of the said product, the patentee shall have all the rights, with regard to the imported product, that are accorded to him by the legislation of the country of importation.

Paris Convention for the Protection of Industrial Property, art. 5^{quater}, Mar. 20, 1883, 21 U.S.T. 1583, revised, July 14, 1967, 6 I.L.M. 806. Indeed, the issue of exhaustion became so contentious during certain international negotiations that the countries included a provision memorializing their inability to reach a consensus. Agreement on Trade-Related Aspects of Intellectual Property Rights, art. 6, Apr. 15, 1994, 33 I.L.M. 1197 ("For the purposes of dispute settlement ... nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."); Carl Baudenbacher,

Trademark Law and Parallel Imports in a Globalized World—Recent Developments in Europe with Special Regard to the Legal Situation in the United States, 22 FORDHAM INT'L L.J. 645, 677 n.135 (1999) (noting strong negative reaction to Australia and New Zealand's legislation favoring parallel imports).

The United States takes the same stance on exhaustion in regional and bilateral agreements. In negotiations on the North American Free Trade Agreement, the United States defeated Mexico's proposal seeking regional exhaustion for NAFTA members. Instead, the agreement leaves exhaustion as a question for national law—which in the United States is based on national exhaustion. Chiappetta, *supra*, at 354-55; *Discussion After the Speeches of Joseph Papovich and Allen Hertz*, 23 CAN.-U.S. L.J. 327, 329-30 (1997). The United States also frequently insists on provisions guaranteeing national exhaustion of intellectual property rights in its bilateral agreements. *See, e.g.*, Morocco Free Trade Agreement, U.S.-Morocco, art. 15.9(4), June 15, 2004, 44 I.L.M. 544 ("Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from [a] patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory.").

A decision by this Court creating international patent exhaustion has the potential to undo more than a century's worth of precedent in the position that the United States consistently takes in

international treaties. Such a seismic shift in diplomacy and trade should be left to Congress, if such a shift is warranted. International diplomacy is not the role of this Court, nor is it in a position to appropriately evaluate the potential impact on the United States.

D. Public Policy Dictates That There Should Be No International Patent Exhaustion

A decision of this Court reversing the Federal Circuit would radically alter the behavior of multinational corporations and would cast into doubt the ability of people in developing nations to access patented pharmaceutical, agricultural, and medical products. Companies are willing to supply patented products at steep discounts in these countries partly because the products cannot be reimported into higher-priced markets where the product is patented without the patentee's consent. Ben Hirschler, *J&J Says it Won't Enforce AIDS Drug Patent in Africa*, REUTERS (Nov. 29, 2012), http://www.reuters.com/article/2012/11/29/us-aids-jj-africa-idUSBRE8AS0PN20121129 (reporting Johnson & Johnson's decision not to enforce patent on its HIV drug in Africa and instead to partner with company to offer drug at discount). Without this protection, companies would likely be forced to either charge the same price to all consumers worldwide or not offer the product in developing nations at all, neither of which is desirable. Frederick M. Abbott, *First Report (Final) to the Committee on International Trade Law of the International Law Association on*

the Subject of Parallel Importation, 1 J. INT'L ECON. L. 607, 619 (1998).

International exhaustion could also undermine a patentee's ability to ensure product quality, as well as pre- and post-sale services. *Id.* at 629. For example, imagine a customer seeking to profit from the differential prices between Thailand and the United States for a patented pharmaceutical. The customer purchases large quantities of the drug at cheaper prices in Thailand and imports them into the United States for resale. If the customer failed to store and ship the drug at the proper temperature, this could harm people and the public would blame the patentee. This represents a significant threat to public welfare not present in the copyright context, and therefore not considered by the Court in *Kirtsaeng*. Maintaining a scheme of national exhaustion for patents would continue to prevent the resale gamesmanship and accompanying health risks that can arise when patented products are offered at differential prices in various markets.

In sum, given patent law's "impeccable historic pedigree" of territoriality, it is logical for a U.S. patent to be exhausted only by a sale that would otherwise give rise to infringement of the U.S. patent—*i.e.*, a sale within the United States. The patentee in this situation exercises her right *under the U.S. patent* and receives just reward for her invention. This is well-settled law. A patentee's decision to avail herself of the very different German patent laws by selling her patented product in Germany under a German patent should not strip the patentee of her U.S. patent rights. She has

exercised no rights under the U.S. patent through the German sale and received no compensation from the U.S. patent. This Court in *Boesch* recognized the fundamental unfairness that international patent exhaustion would impose on patentees. It should continue to stand by this well-reasoned precedent.

CONCLUSION

The Court should affirm the judgment below, ruling that a conditional sale, which specifies post-sale restrictions, transfers title to a patented item but avoids patent exhaustion such that violations of the post-sale restrictions are enforceable through a patent infringement remedy and that a U.S. patent owner may authorize the sale of a patented article in a foreign country, either under a foreign patent or otherwise in accordance with foreign law, while reserving its exclusive rights under U.S. patent law.

Respectfully submitted,

MARK L. WHITAKER
President
AMERICAN
INTELLECTUAL
PROPERTY LAW
ASSOCIATION
1400 Crystal Drive
Suite 600
Arlington, VA 22202
(703) 415-0780

KRISTIN L. YOHANNAN
Counsel of Record
MILBANK, TWEED, HADLEY
& MCCLOY LLP
1850 K Street, NW
Suite 1100
Washington, DC 20006
(202) 835-7500
kyohannan@milbank.com

RECORD AND BRIEFS

No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

AMICUS CURIAE BRIEF OF THE ASSOCIATION OF MEDICAL DEVICE REPROCESSORS IN SUPPORT OF IMPRESSION PRODUCTS, INC.

ROBERT A. SURRETTE
Counsel of Record
CHRISTOPHER M. SCHARFF
MCANDREWS, HELD, AND MALLOY, LTD.
500 West Madison Street, Suite 3400
Chicago, Illinois 60661
(312) 775-8000
bsurrette@mcandrews-ip.com

Counsel for Amicus Curiae Association of Medical Device Reprocessors

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INTEREST OF THE *AMICUS CURIAE*[1]

The Association of Medical Device Reprocessors ("AMDR") is a trade organization consisting of member companies that reprocess medical devices. Member companies collect, clean, repair, and re-sterilize (among other steps) discarded medical devices that can safely be reused pursuant to Food and Drug Administration (FDA) regulations. The devices that AMDR member companies reprocess include used cardiovascular, patient monitoring and compression therapy, general surgery, and orthopedic devices, as well as opened but unused devices. AMDR member companies provide hospitals with safe and effective reprocessed devices, which lower healthcare costs and reduce the impact of medical waste on the environment.

The FDA regulates companies that market medical devices in the United States, including medical device reprocessors.aBefore a reprocessed medical device can be marketed or sold, a third-party reprocessor must demonstrate—and the FDA must agree—that the reprocessed device is substantially equivalent in

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1. No party or its counsel authored this brief in whole or in part, or contributed money to fund preparing or submitting this brief. No person or their counsel, other than the *amicus* party or its members (Stryker Sustainability Solutions, Inc., a wholly-owned subsidiary of Stryker Corporation, Medline ReNewal, Innovative Health, Vanguard AG, and Hygia Health Services), contributed money intended to fund preparing or submitting the brief. Respondent Lexmark International, Inc. filed a letter of blanket consent to *amici*. Petitioner Impression Products, Inc. granted consent to *amicus curiae* AMDR on January 5, 2017 via electronic mail, a copy of which is being submitted herewith.

terms of safety and efficacy to the predicate originally-manufactured device. A third-party reprocessor must comply with the same requirements that apply to original equipment manufacturers, including:

- Registering all reprocessed products;
- Obtaining premarket clearance or approval;
- Verifying compliance with FDA's quality system regulation;
- Submitting adverse event reports;
- Tracking devices whose failure could have serious outcomes;
- Correcting or removing from the market unsafe devices;
- Meeting manufacturing and labeling requirements; and
- Submitting the reprocessing facilities to regular inspection.

The savings realized through the use of reprocessed single-use devices allows hospitals and healthcare providers to cut costs significantly and redirect those funds toward hiring more medical professionals or improving patient care. Many of the hospitals with whom AMDR members work are able to save more than $1 million annually by purchasing AMDR members' reprocessed single-use devices. Smaller community hospitals report saving more than $250,000 annually.

The reprocessing services offered by AMDR members also have a drastic positive effect on the environment. AMDR members help hospitals divert millions of pounds from local landfills per year. On average, medical device reprocessing can divert over 50,000 pounds of medical waste from a single hospital each year—the equivalent weight of more than five elephants. Regulated medical waste, also known as "red bag" waste, costs up to 5-10 times more to dispose of than regular solid waste.

The Federal Circuit's decision, however, would significantly erode or erase medical device reprocessing. If an original manufacturer can avoid the patent exhaustion/first sale doctrine simply by including a "single-use" restriction with the sale of a patented product, then reprocessors of such devices would risk liability for patent infringement. A manufacturer could force consumers, including the hospitals served by AMDR members, to purchase a new replacement device from the manufacturer and to dispose of devices that have only been used once or opened but unused.

Similarly, if foreign sales do not trigger U.S. patent exhaustion, manufacturers would be able to exact multiple payments for a single sale of a product (e.g., when it is originally sold abroad and again when imported or sold into the U.S.) or engage in more aggressive discriminatory pricing. If the Court does not reverse the decision of the Federal Circuit, healthcare costs will multiply, medical waste will pile up, and competition in the medical device market will be reduced.

AMDR, therefore, seeks to provide this Court with the perspective of an industry impacted by the decision in

this case. Specifically, AMDR submits this *amicus curiae* brief in support of Petitioner Impression Products, Inc. to address both Questions Presented.

SUMMARY OF ARGUMENT

For over 150 years, the law has encouraged the right of consumers to reprocess, repair, recycle, or resell their property as they see fit—free from any restrictions on downstream use that might otherwise be attached to those products. This principle, also referred to as a prohibition against "restraints on alienation" or restraints that "run with chattels," is deeply rooted in our common law.

This principle manifests itself in patent law as the patent exhaustion doctrine—a defining boundary of the limited monopoly afforded by a patent. Under this doctrine, the first authorized sale of a patented product exhausts the patentee's rights. Put another way, after title of a patented product passes to a purchaser through a sale authorized by the patentee, the patentee cannot thereafter use patent law to control how that product is subsequently used, recycled, resold, or repaired. As this Court has recognized, "the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward . . . by the sale of the article"; once that "purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *United States v. Univis Lens Co.*, 316 U.S. 241, 249-50 (1942).

The patent exhaustion doctrine makes secondary markets for reprocessed or refurbished patented goods possible—secondary markets that are good for

commerce, competition, and the public. In particular, the medical device reprocessing industry provides affordable alternatives to new patentee-controlled medical devices. It also provides beneficial competition resulting in lower prices for new devices. Reprocessed medical devices save hospitals hundreds of millions of dollars per year along with eliminating millions of pounds of medical waste per year. Meanwhile, reprocessed devices are just as tightly regulated by the FDA as new devices and just as safe.

Until the Federal Circuit's *en banc* decision in this case, it was widely understood that the patent exhaustion doctrine protected medical device reprocessing. In particular, an original equipment manufacturer ("OEM") could not use the threat of patent infringement to prohibit a third-party reprocessing company from reselling a product after the patentee willingly parted with it via an authorized first sale. A 1992 Federal Circuit panel decision to the contrary (*Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992)) did not change this view—that decision was understood to be decided incorrectly and not good law. Subsequently, this Court reinforced the view that any authorized sale triggers patent exhaustion (*Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008)). Most commentators and several district courts believed definitively that *Quanta* overruled *Mallinckrodt*.

The Federal Circuit's *en banc* decision in this case, however, up-ends the over 150 years of law protecting secondary markets. It effectively eliminates the patent exhaustion doctrine through two exceptions that swallow the rule.

First, the Federal Circuit incorrectly held that a patentee can include post-sale restrictions in a sales contract to opt out of patent exhaustion for U.S. sales (what it termed a "conditional sale"), reaffirming its decision in *Mallinckrodt*. Whereas the Supreme Court had articulated patent exhaustion as a bright-line *limit* on a patentee's ability to control post-sale use of a patented product, the Federal Circuit's decision makes patent exhaustion an *optional* result for sales in the United States. The Federal Circuit's holding, however, directly contradicts this Court's repeated articulation of the patent exhaustion doctrine. As recently as *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), this Court recognized that *any* sale authorized by the patent holder triggers patent exhaustion. *See, e.g., id.* at 638. The Federal Circuit bases its contrary holding on misinterpretations of Supreme Court precedent, misapplications of Title 35 of the U.S Code ("the Patent Statute"), and/or misperceived non-existent policy or practical concerns.

Second, the Federal Circuit carved out another exception to patent exhaustion in connection with foreign sales, reaffirming its decision in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001). The Federal Circuit held that no sales made outside of the U.S., even if authorized by the patentee, trigger patent exhaustion. Under this standard, a patentee is free to dictate how a product that it first willingly sold abroad can be subsequently used, reused, or resold domestically. This result, however, similarly misapprehends Supreme Court precedent. In particular, this Court reached the opposite holding in *Kirstaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), in the copyright exhaustion context. The Federal Circuit ignored

that the general common law rule against restraints on alienation makes "no geographical distinctions" (133 S. Ct. at 1363), and the Federal Circuit illogically and incorrectly distinguished the holding of *Kirstaeng*.

In short, the Federal Circuit's decision creates just the sort of "end-run" around patent exhaustion that this Court has expressly prohibited. *See Quanta*, 553 U.S. 617 at 630 ("This case illustrates the danger of allowing such an end-run around exhaustion.") (emphasis added). If allowed to stand, the Federal Circuit's decision will allow patent holders to do the very thing that patent exhaustion prohibits—control downstream use and resale or else enrich themselves by demanding second, third, or fourth license fees in excess of the patent reward.

Further, the Federal Circuit overlooked many practical problems with its ruling. New information costs alone (e.g., the cost of investigating whether a product is covered by patents, whether any conditions or restrictions on resale, reuse, etc. were included in the original sales contract, and where the product was first sold (U.S. or abroad)) may drive many secondary market companies out of business and eliminate the benefits of competition to consumers. A reprocessing company would no longer be able to rely just on proof of an authorized first sale to end all patent concerns. The reprocessing company would have to undertake that investigation for each individual item—because it would be possible for the OEM to change its sales contracts at any time.

Even if a reprocessing company is able to bear such costs, any such investigations would be rife with uncertainties. Among other things, consumers and reprocessing companies targeted by these post-sale restrictions may have no way of knowing whether post-sale restrictions exist (such as in this case, where only Lexmark's packaging—and not its product—was labeled with a single-use-only designation). Even if a product itself contains an embossed single-use-only indication, a third party reprocessor may have no way of knowing whether it reflects just a mere warning (that does not trigger exhaustion) or whether it reflects a condition in the actual original sale contract. Moreover, if the reprocessing company is unable to ascertain definitively that a product does *not* have a post-sale "restriction" attached to it, it may be unwilling to take the risk of investing in a reprocessing effort just to have an OEM later send a cease-and-desist letter with "notice" of a restriction to bar future sales.

Reaffirming a bright-line scope of patent exhaustion avoids all of the problems with the Federal Circuit's test. It recognizes the importance of the common law rule against restraints on alienation. It is consistent with Supreme Court precedent. And it is best for commerce, consumers, the environment, and the public.

ARGUMENT

I. A BROAD PATENT EXHAUSTION DOCTRINE IS GOOD FOR COMMERCE

A. Reprocessed Medical Devices Promote Competition, Reduce Waste, and Lower Medical Costs

1. The secondary market for goods, and reprocessed medical devices in particular, is a significant industry. Most of the nation's 5,500 or so acute care hospitals have implemented reprocessing programs, and this number has grown every year. AMDR's members reprocess medical devices for all of the 20 hospitals recognized on the *US News & World Report* "Honor Roll," including Mayo Clinic, Cleveland Clinic, Johns Hopkins, Massachusetts General, Stanford Healthcare and many others. Analysts, such as Transparency Market Research, estimate that the total savings to all hospitals from reprocessing is upwards of $500 million per year.

In 2012, the Commonwealth Fund, with support from Health Care Without Harm and the Robert Wood Johnson Foundation, extrapolated existing data regarding reprocessed medical device usage to estimate that, if adopted nationwide, single-use device (SUD) reprocessing cost savings would amount to $540 million annually or $2.7 billion over five years.

The Healthier Hospitals Initiative, an alliance of hospitals and health systems that seeks to boost sustainability in healthcare, released a report in April 2013 finding that its 185 hospitals saved $32 million

in 2012 by reprocessing single-use medical devices. And Tenet Healthcare Corp. reported saving $9.4 million and diverting more than 1.5 million pounds of medical waste from landfills in 2012. For that reason, customers of AMDR's members have described medical device reprocessing as "the right thing to do, both environmentally and economically." *See* http://www.beckershospitalreview.com/supply-chain/the-ins-and-outs-of-third-party-reprocessing.html (last visited January 5, 2017). The American Nurses Association, Association of Peri-Operative Nurses, Healthcare Without Harm, and Practice Greenhealth have also all written in support of the environmental benefits of single-use device reprocessing. *See* http://www.amdr.org/environmental/ (last visited January 5, 2017).

2. Even the FDA has recognized the significant benefits of reprocessed medical devices. The FDA has cleared approximately 252 single-use medical devices for reprocessing. The FDA appreciates that "[r]eprocessing and reusing single-use devices (SUDs) can save costs and reduce medical waste." FDA Device Advice: Comprehensive Regulatory Assistance, Reprocessing of Single-Use Devices, http://www.fda.gov/MedicalDevices/DeviceRegulationandGuidance/ReprocessingofSingle-UseDevices/ (last visited January 9, 2017). Agency testimony to Congress on the issue also indicated that hospitals "responded overwhelmingly that they view the use of reprocessed SUDs as providing a significant cost savings to their facilities and as being an environmentally sound practice." *See*, Testimony of Dr. Daniel Schultz, http://www.fda.gov/MedicalDevices/DeviceRegulationandGuidance/ReprocessingofSingle-UseDevices/ucm121067.htm (last visited January 5, 2017).

B. Patent Exclusion Power is Not Needed as a Policy Matter to Ensure that Reprocessed Medical Devices are Safe

The Federal Circuit based its ruling, in part, on a misguided policy finding regarding the safety of reprocessed medical devices. Without citing to any evidence, the Federal Circuit majority concluded that enforcing post-sale restrictions through patent law allegedly makes sense because, for example, a medical device supplier may have "reason to believe that reuse, when not under its own control, carries a significant risk of poor or even medically harmful performance, to the detriment of its customers and its own reputation." *See* Pet. App. at 60a-61a. According to the Federal Circuit's unsupported speculation, "[s]uch interests are hardly unrelated to the interests protected by the patent law—the interests both of those who benefit from inventions and of those who make risky investments to arrive at and commercialize inventions." *Id.* at 61a. The Federal Circuit's finding in this regard, however, has no factual basis.

1. The Federal Circuit failed to recognize that the FDA itself ensures that reprocessed devices comply with the "same regulatory framework as original equipment manufacturers (OEM)s." *See* Testimony of Dr. Daniel Schultz, http://www.fda.gov/MedicalDevices/DeviceRegulationandGuidance/ReprocessingofSingle-UseDevices/ucm121067.htm (last visited January 5, 2017). The FDA's former Director of the Center for Devices and Radiological Health has therefore recognized that the "FDA believes that reprocessed SUDs [single-use devices] that meet FDA's regulatory requirements are as safe and effective as a new device." *Id.* (emphasis added).

In fact, the "pre-market submission of data to the Agency [for clearance of a reprocessed device] . . . exceed[s] the requirements for OEMs." *Id.* (emphasis added). That is because in 2002, Congress enacted the Medical Device User Fee and Modernization Act ("MDUFMA"), which provides in § 302 additional specific regulatory requirements for reprocessed single-use devices, including that a reprocessor must:

- "prominently and conspicuously" label the device as reprocessed;
- allow the FDA to review devices previously exempted from FDA 510(k) clearance; and
- submit a new, additional category of premarket submission—the premarket report—for any reprocessed Class II device.

2. There is nothing inherently unsafe in reprocessing a device that an original manufacturer chose to designate as single use only. The decision to put a "single use" label on a device's packaging is made by the original manufacturer—not the FDA. A manufacturer typically makes that label designation to avoid having to submit evidence supporting re-use to the FDA. *See* U.S. Government Accountability Office, GAO-08-147, *Reprocessed Single-Use Medical Devices: FDA Oversight Has Increased, and Available Information Does Not Indicate that Use Presents an Elevated Health Risk* (Jan. 2008), available at http://www.gao.gov/products/GAO-08-147 (last visited January 5, 2017).

3. In any event, this Court long ago resolved the proper policy balance between a patentee's interest in using patent law to control the use of an invention versus the public's interest in using their purchased property as they see fit. That is the very origin of the patent exhaustion doctrine. *See, e.g., Bloomer v. McQuewan*, 55 U.S. 539, 14 How. 539, 549, 14 L. Ed. 532 (1853) ("[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly."); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917) (observing that "the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is 'to promote the progress of science and useful arts'"). Regardless of the patentee's purported motivation for wanting to control downstream use (whether for safety or otherwise), and regardless of whether the patented product is a reprocessed medical device, refurbished smartphone, or replacement part for an automobile, the same policy stands.

C. Reprocessing Companies Have Long Operated Under the Understanding That Post-Sale Restrictions Cannot Avoid Patent Exhaustion

1. Secondary market companies (and reprocessing companies in particular) have long operated with the understanding that their industry is protected by the law—that the doctrine of patent exhaustion encourages repair, reprocessing, recycling, and reuse of patented products. *See, e.g.*, Amber Hatfield Rovner, *Practical Guide to Application of (or Defense Against) Product-Based Infringement Immunities Under the Doctrines of Patent Exhaustion and Implied License*, 12 Tex. Intell. Prop. L.J. 227, 269-270 (2004) ("The prevailing view is

that the distinction between permitted and prohibited activities, with respect to patented items after they have been placed in commerce by an authorized source, has been distilled into the terms 'repair' and 'reconstruction.' The law recognizes the right of the purchaser to 'repair' a lawfully acquired product . . . .").

2. These companies did not believe that *Mallinckrodt* changed the law when it was decided in 1992. Rather, it was believed that *Mallinckrodt* was wrongly decided, as it contradicted earlier precedent of this Court. *See, e.g.*, Richard H. Stern, *The Unobserved Demise of the Exhaustion Doctrine in US Patent Law*, 15 Eur. Intel. Prop. Rev. 460-65 (1993) ("The flaws in *Mallinckrodt's* legal analysis appear overwhelming. . . . Because *Mallinckrodt's* precedential support is negligible, its viability as a precedent may be limited. Subsequent panel decisions may distinguish it or limit it to its facts to the point of irrelevance.") (emphasis added).

One article soon after *Mallinckrodt* described the following from discussions with corporate patent counsel:

> Their fear was that *Mallinckrodt* might not endure as a new rule of law because its support as precedent seems fragile or shaky. Courts may distinguish it and confine it narrowly to its facts. The Federal Circuit may ignore its ruling in subsequent cases. Hence, counsel who recommended aggressive business strategies based on *Mallinckrodt* might later be embarrassed by a judicial retreat from it and a return to the exhaustion doctrine.

Richard H. Stern, *Post-Sale Patent Restrictions After Mallinckrodt—An Idea In Search of Definition*, 5 Alb. L. J. Sci. & Tech. 1, 9 (1994).

3. Most observers, moreover, agreed that *Quanta* definitively overruled *Mallinckrodt* in 2008. *See* Alfred C. Server and William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following Quanta*, 64 Hastings L.J. 561, 596 (Apr. 2013) (stating that "a majority of commentators" have adopted the view that *Quanta* overturned the conditional sales doctrine); Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 60 Ala. L. Rev. 103, 111 & n.35 (2008) (believing *Quanta* overruled *Mallinckrodt*); Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, IDEA—The Intellectual Property Law Review, Vol. 49, No. 4 (June 7, 2009) at 529-30 (same).

Likewise, numerous lower court judges determined that *Quanta* overruled *Mallinckodt. See, e.g., Ergowerx Int'l, LLC v. Maxell Corp. of Am.*, 18 F. Supp. 3d 430, 449 (S.D.N.Y. 2014); *Lexmark Int'l, Inc. v. Ink Techs. Printer Supplies, LLC*, 2014 WL 1276133, **6-7 (S.D. Ohio Mar. 27, 2014); *JVC Kenwood Corp. v. Arcsoft, Inc.*, 966 F. Supp. 2d 1003, 1010 n.1 (C.D. Cal. 2013); *Intergraph Hardware Techs. Co. v. Dell, Inc.*, 2009 U.S. WL 166559, *3 (E.D. Tex. Jan. 16, 2009).

Accordingly, the status quo has not, as the Federal Circuit majority and Lexmark incorrectly assert, been one where companies have operated under *Mallinckrodt's* "conditional sale" exception to patent exhaustion. Should this Court decline to reverse the Federal Circuit's

sweeping *en banc* decision, however, post-sale restrictions will undoubtedly become far more common. Secondary markets for medical devices, cell phones, home electronics, automotive parts, and other goods may very well largely disappear. *See infra* at § II.A.

II. THE FEDERAL CIRCUIT'S NARROWED PATENT EXHAUSTION DOCTRINE WOULD HARM COMMERCE

If this Court finds that the *en banc* Federal Circuit ruled correctly, then both the patent exhaustion doctrine and the common law against restraints on alienation would be eviscerated.

1. Under the Federal Circuit's "conditional sale" exception to patent exhaustion, a patentee is able to dictate the terms of any sales and uses of a patented product, including all downstream instances. All a patentee has to do to dictate such terms and uses is include a post-sale restriction in the purchase agreement. Many direct purchasers will likely agree to (or not notice or dispute) such post-sale restrictions in the sales contract as they may not be affected directly by them or may receive some consideration in return. The secondary market—the reprocessing, repair, recycling, and resale companies that did not agree to the restrictions and received no consideration for them—would be the real entities impacted by such post-sale restrictions.

Indeed, if the Federal Circuit's "conditional sale" test is taken to its logical conclusion, a patentee could avoid patent exhaustion on its own accord by placing a "clearly communicated" provision in every sales contract stating

that "THIS SALE DOES NOT TRIGGER PATENT EXHAUSTION." A patentee would then be able to use the threat of patent infringement liability to either prohibit reuse/resale entirely or to extract second, third, or fourth license fees. The patentee could raise that threat against not only reprocessing or resale companies, but even ordinary consumers. The Federal Circuit's rule could lead to a slippery slope where a consumer could be liable for patent infringement by, for example, selling a used car or even having a garage sale.

2. The Federal Circuit's second ruling—that authorized foreign sales do not result in patent exhaustion—would also significantly disrupt secondary markets and harm consumers if it is allowed to stand. At the same time, it would only enrich patent holders by allowing them to demand multiple payments on a single tangible good after it is sold, or to enforce country-by-country price discrimination.

For example, a medical device reprocessor could face allegations of patent infringement if it were to bring foreign-sold medical devices into the U.S. to reprocess those devices in a U.S. reprocessing facility. Even if the U.S. reprocessor intends to simply take devices from the original authorized foreign purchaser, send them to the U.S. to reprocess them as a service for the owner, and send them back to the original purchaser, that act of importation could expose the reprocessor or original purchaser to infringement liability. *See* 35 U.S.C. § 271 (importing a patented good can be an act of infringement). Therefore, such a U.S.-based reprocessor—who otherwise performs mere reprocessing-for-hire services, would now have to trace the patent rights of every individual

product and every separately-sourced component of those products. Or, the U.S.-based reprocessor would have to set up duplicative and wasteful reprocessing facilities around the globe.

The Federal Circuit's decision would also result in higher costs for medical devices in the United States. A U.S.-based reprocessor who engages in the business of buying lower-cost medical devices overseas for resale in the U.S. would be exposed to increased risk of patent infringement allegations. Meanwhile, the patentee could potentially charge a lower price outside of the U.S. for a device, but a much higher price for sales in the United States. A U.S. hospital or other consumer would be unable to buy the products at a lower price outside of the U.S. and import them for use.

3. Both parts of the Federal Circuit's ruling would also harm commerce by driving up information costs for remaining permissible secondary markets, namely the costs associated with investigating potential liability risk. *See, e.g.*, Molly Shaffer Van Houweling, *The New Servitudes*, 96 Geo. L.J. 885, 915 (2008) ("Refusal to enforce chattel servitudes avoids adding an extra level of informational complexity to what might otherwise be relatively simple and fluid commerce"); Samuel F. Ernst, *Patent Exhaustion for the Exhausted Defendant: Should Parties Be Able to Contract Around Exhaustion in Settling Patent Litigation?*, 2014 U. Ill, J.L. Tech. & Pol'y 445, 472 (describing information costs that would be involved without patent exhaustion).

Before the Federal Circuit's ruling, a repair/refurbishment company did not need to investigate

whether a product it was reselling was covered by any patents owned by or licensed to the product's OEM. The issue was moot—even if the product was covered by such a patent, any patent rights were exhausted by the first authorized sale. A repair/refurbishment company also did not have to investigate the terms of the original sales contract—because it was not a party to that contract, any "conditions" in the contract were inapplicable to it. Further, the repair/refurbishment company did not have to determine if the product's first sale occurred in the U.S. or abroad—it did not matter for exhaustion. If post-sale restrictions in a sales contract can be enforced on third party repair/refurbishment companies, however, then those companies would have to undertake such investigations in every instance or else risk potential patent infringement. For many secondary market companies, these information costs could be unbearable, driving them out of business.

4. The Federal Circuit's "conditional sale" exception would also likely be unworkable as a practical matter. In many instances, a downstream purchaser will have no way of knowing the terms of the original sale contract, or be able to distinguish between a "condition" that runs with the patented good versus a mere instruction or label warning.

The Federal Circuit's *en banc* decision partly recognized this concern and tacked onto its "conditional sale" exception a requirement of "notice" to all purchasers, including "downstream buyers." *See* Pet. App. at 62a-63a. The Federal Circuit, however, provided no guidance as to what would constitute "notice" of a "clearly communicated" restriction to downstream purchasers—it expressly declined to do so. *See* Pet. App. at 14a.

The Federal Circuit's own precedent, meanwhile, reveals several problems with its "notice" requirement. For example, the Federal Circuit had previously held in *Jazz Photo* that only post-sale restrictions in a sales contract can constitute "conditions" that would avoid patent exhaustion. Merely putting "instructions and warnings" on packaging stating that a product is "for single use only" is insufficient, because mere labeling cannot constitute a contract and thus a condition on the sale. *See Jazz Photo Corp. v. ITC*, 264 F.3d 1094, 1108 (Fed. Cir. 2001) ("We do not discern an enforceable restriction on the reuse of these cameras based on the package statements [stating that the cameras were for single use]. These statements are instructions and warnings of risk, not mutual promises or a condition placed upon the sale.")

Yet the *Jazz Photo* holding contradicts the very facts of *Mallinckrodt*. In that case, the only "notice" that a downstream purchaser (Medipart) had of the "single use only" restriction was a label on the product—not notice of the actual sales agreement with the original customer/hospital. *See Mallinckrodt*, 976 F.2d at 702.

This begs the question, then—how can a third party ever know whether a "notice" on a product or its labeling was (a) an actual contractual limitation that precludes patent exhaustion, or (b) a mere "instruction" or "warning" that does not? And if a product includes only a mere label warning, how is a third party purchaser to know what terms might be in the original sales contract?

This uncertainty may in many instances effectively put an impossible burden on third party reprocessing companies. If a reprocessing company is unable to

definitively ascertain that there is *not* a post-sale restriction in the original sale contract, can the company take that risk? It may be unwilling to invest in reprocessing and reselling a product line, just to later receive "notice" from the OEM of a previously-unknowable condition in the original sales contract (to which it was not a party). While the past sales without "notice" may be protected, it is unclear under the Federal Circuit's decision whether an OEM can use such a cease-and-desist letter to preclude future sales.

5. The Federal Circuit's ruling that patent exhaustion does not apply to goods that a U.S. patentee sells abroad raises even more practical problems. Even if it is located in the U.S., a downstream purchaser may often have no way of knowing whether the first authorized sale of a product occurred in the U.S. or not. Under the Federal Circuit's decision, however, the downstream purchaser's knowledge of whether a first sale was made in the U.S. or abroad is irrelevant. The fact that a product was first sold abroad does not even need to be "clearly communicated" to a downstream purchaser in order to avoid patent exhaustion. *See* Pet. App. at 63a-103a.

The bright-line patent exhaustion doctrine of *Quanta* and the bright-line rule of *Kirstaeng* against geographical distinctions on restraints against alienation remove all of this uncertainty. They strike the proper balance between patentee and purchaser rights and relegate contract disputes to their proper place.

III. THE FEDERAL CIRCUIT'S HOLDING THAT PATENTEES CAN OPT OUT OF DOMESTIC PATENT EXHAUSTION IS ERRONEOUS

A. The Supreme Court Has Repeatedly Held that Any Authorized Sale, Regardless of Post-Sale Restrictions, Triggers Patent Exhaustion

The Federal Circuit's "conditional sale" exception to patent exhaustion contradicts 150 years of Supreme Court precedent. While the Federal Circuit described its "conditional sale" exception as fitting within the seams of this Court's prior cases, it would in fact upend those cases and create an end-run around patent exhaustion that could swallow it entirely.

1. Since 1853, this Court has recognized a fundamental limit on the scope of patent rights. Once a patentee authorizes a sale of a patented product, that article "passes outside" the patent's coverage "and is no longer under the protection of the act of Congress." *Bloomer v. McQuewan*, 55 U.S. 539, 549-550 (1853) (emphasis added). Ever since then, the Court has repeatedly reaffirmed this doctrine of patent exhaustion from a first authorized sale.

In *Hobbie v. Jennison*, the Court explained that patent exhaustion is premised on the concept that the "reward" to which a patentee is entitled is the compensation for which he (or one acting with his authority) first parts with title. 149 U.S. 355, 361-363 (1893). A few years later, the Court reiterated that after a first authorized sale, a patentee cannot enforce downstream restrictions on the use of a patented article "under the inherent meaning and effect of the patent laws." *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895).

In *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, the Court reiterated that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it." 243 U.S. 502, 516 (1917). In that case, a patentee attempted to impose a post-sale restriction on patented film machines, dictating that the machine could only be used with certain motion picture film reels. *See id.* at 516. The patentee sued Universal Film (who was not a party to any contract with the patentee) for alleged patent infringement based on its sales of unauthorized film reels to users of the patented machines. The Court held that the post-sale restriction was void—the initial authorized sale by the licensee exhausted the patents. *See id.* at 516.

Later, in *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), the Court again relied on patent exhaustion in concluding that post-sale restrictions could not be enforced via patent law. There, the patentee had attempted to control retail prices of its patented lenses. The Court found that patent exhaustion precluded the post-sale restriction; that "the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article . . . once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *Id.* at 251.

2. The Supreme Court's patent exhaustion case law culminated in the recent *Quanta* decision. *See* 553 U.S. 617, 638. In *Quanta*, the Court reaffirmed a patent exhaustion standard that is both broad and simple: "[T]he

authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638 (emphasis added).

3. The Supreme Court's patent exhaustion cases have addressed the very issue raised by the Federal Circuit's *en banc* decision in this case—whether a "conditional sale" avoids patent exhaustion.

Namely, for a short time in the early 1900's, post-sale restrictions such as the one at issue in this case *were* found to avoid patent exhaustion. *See Henry v. A.B. Dick Co.*, 224 U.S. 1, 24-25 (1912) ("[I]f the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded."). Although *A.B. Dick* used the term "specific restriction" rather than the Federal Circuit's term "conditional sale," the concept was the same—a patent holder could, notwithstanding patent exhaustion, put conditions on post-sale use that, if violated, would result in patent infringement. *See id.* at 24-25.

The Supreme Court, however, soon overruled *A.B. Dick*. Just a few years later in *Motion Picture Patents*, the Court held that post-sale restrictions *cannot* be used to prevent patent exhaustion. 243 U.S. 502, 518 (1917). The Court expressly held that *A.B. Dick* "must be regarded as overruled." *Id.* at 518. In particular, the Court explained that the "defect in [*A.B. Dick's*] thinking" was its "failure to distinguish between the rights which are given to the inventor by the patent law . . . and rights which he may create for himself by private contract." *Id.* at 514.

As one commentator pointed out, "the Federal Circuit's subsuming of patent exhaustion in antitrust [in *Mallinckrodt*] is identical to *A.B. Dick's* discredited ruling." Douglas Fretty, *Both a License and a Sale: How to Reconcile Self-Replicating Technology With Patent Exhaustion*, 5 J. Bus. Entrepreneurship & L. 1 (2011).

B. The Federal Circuit's and Lexmark's Rationales for a "Conditional Sale" Exception to Patent Exhaustion Are Erroneous

Notwithstanding the broad holdings of *Motion Picture Patents*, *Univis* and *Quanta*, the Federal Circuit rationalized an exception to the patent exhaustion doctrine—that a "conditional" sale subject to otherwise lawful post-sale restrictions would not trigger exhaustion. *See* Pet. App. at 20a-63a. But the Federal Circuit's reasoning is flawed. The Federal Circuit's exception would in fact eliminate the very purpose of patent exhaustion and cannot be reconciled with Supreme Court precedent.

1. A key error in the Federal Circuit majority's decision was its incorrect reading of the Patent Statute. The Federal Circuit read the Patent Statute to suggest that the *very doctrine of patent exhaustion itself should not exist*. *See* Pet. App. at 20a-25a. Namely, 35 U.S.C. §§ 271(a) and 154(a)(1) empower a patent holder to exclude use of a patented invention that is "without authority." *See id.* The Federal Circuit read this language to mean that even after a product is sold, a patentee should be able to control any subsequent or downstream use that is made "without authority" of the patentee. *See id.*

As the Federal Circuit dissent explained, however, "[t]hat reliance is misplaced." Pet. App. 119a-120a. The entire thrust of the patent exhaustion doctrine is that it "*limits* a patentee's right to control what others can do with an article embodying or containing an invention." *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766 (U.S. 2013) (emphasis added). The Supreme Court has explicitly recognized that § 271(a) only allows a patentee to control use of a patented invention *until* exhaustion takes title of the product outside of the patent's control. *See id.* at 1766 n2. That is the very point of *Motion Picture Patents* and *Quanta*. In those cases, the patentee had not given "authority" for the post-sale use of the patents—that was the reason for the dispute in the first place. *See Motion Pictures Patents*, 243 U.S. at 514-15, *Quanta*, 553 U.S. at 638. Nevertheless, an "authorized" first sale triggered patent exhaustion. *See id.*

The Federal Circuit's explanation for how patent exhaustion could have any viability under its reading of the Patent Statute is likewise flawed. The Federal Circuit asserted that patent exhaustion would still survive, but instead of being a limit on a patentee's control, it would just be a "*default* rule for determining whether authority has been conferred . . . where an express conferral is missing." Pet. App. at 40a (emphasis added). That position, however, makes no sense—if, as the Federal Circuit majority reasoned, any use "without authority" from the patentee constitutes infringement, then how can the "default" be that authority for all post-sale uses was conferred if the patentee was silent?

2. The Federal Circuit also erred in distinguishing the Supreme Court's prior statements on patent exhaustion.

Again, this Court has repeatedly stated a simple test for patent exhaustion—that it is triggered by any "authorized sale." *See supra* at § III.A. The Federal Circuit, however, characterized the Supreme Court's statements in this regard as mere *dicta*. The Federal Circuit reasoned that, despite articulating a seemingly broad test, the Supreme Court's prior decisions really only found exhaustion if there was either no post-sale restriction imposed or the restriction would otherwise have violated the antitrust laws. *See* Pet. App. at 54a-55a. That theory, however, has no basis.

The Supreme Court in *Quanta*, for example, did not state that its broad rule for determining patent exhaustion was dependent on the relationship of the parties, the terms of the purchase contract, or whether there were any tangential covenants, warranties, or ongoing duties in the contract. Rather, the Court in *Quanta* unequivocally held as a general matter that "the authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights . . . ." *Id.* at 638

Nor do *Quanta's* facts suggest that its holding is narrow or limited. In *Quanta*, a patentee (LGE) had licensed a manufacturer (Intel) to make and sell products practicing LGE's patents. *Id.* at 636. What LGE argued were "conditions" on Intel's license to sell the products were found by the Court to be merely collateral agreements between LGE and Intel (i.e., Intel was required to notify any purchasers not to combine the patented products with non-Intel components). *Id.* The Court found that regardless of whether or not a third party purchaser (Quanta) later complied, post-sale, with that notification from Intel, the initial sale from Intel to Quanta was "authorized" by LGE

at the time it was made, which exhausted LGE's patent right. *Id.* at 638. In other words, *Quanta* broadly found that the existence of collateral post-sale restrictions in the original sales contract was irrelevant—all that mattered was that LGE had authorized Intel to sell its products and Intel's initial sale was within that authority. Anything that Intel's customer (Quanta) did after that sale fell outside of LGE's control.

The Federal Circuit similarly misinterpreted *Motion Picture Patents*. The Federal Circuit found that it only established that *unlawful* post-sale restrictions (e.g., price fixing) did not circumvent patent exhaustion. *See* Pet. App. at 53a-54a. The Court in *Motion Picture Patents*, however, put no such limitation on its holding. In fact, the decision does not even mention price fixing or antitrust. The Court simply held that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it." *Motion Picture Patents*, 243 U.S. at 516, 518.

Univis likewise did not turn on whether a post-sale restriction is legal under antitrust law. In *Univis*, the Court broadly found that where a patent holder has sold a patented product he has "thus parted with his right to assert the patent monopoly with respect to it and is no longer free to control the price at which it may be sold ...." 316 U.S. at 251. In arriving at that conclusion, *Univis* started its analysis with patent law, stating that "before considering whether the defendants' conduct violated antitrust law, the Court first asked whether that conduct was excluded by the patent monopoly from the operation of the Sherman Act." *Univis*, 316 U.S. at 244 (emphasis

added). To answer that question, the Court turned to patent exhaustion. *Id.* In other words, *Univis* found that the post-sale restrictions at issue were also illegal under antitrust law only after concluding that patent exhaustion first voided them. That is why *Quanta*—which did not turn on or discuss any antitrust issues—recognized that "*Univis* governs." *Quanta*, 553 U.S. at 617.

In any event, the Federal Circuit's theory for distinguishing these Supreme Court cases overlooks a simple fact—if all those cases stood for is the proposition that post-sale arrangements that violate antitrust law are unenforceable (but others are enforceable), then why would those cases mention patent exhaustion at all? They could simply have been resolved through antitrust law. Instead, they were resolved based on a broad patent exhaustion standard.

3. The Federal Circuit also incorrectly premised its decision on a misinterpretation of a term used in some older Supreme Court decisions. The Federal Circuit found that its "conditional sale" exception to patent exhaustion was supported by the Supreme Court's own past use of the term "unconditional sale" to describe a sale that triggers patent exhaustion. *See Motion Picture Patents*, 243 U.S. at 516. Similarly, Lexmark points to the Court's decision in *Mitchell v. Hawley*, 83 U.S. 544, 547 (1873), which states that patent rights are exhausted when the patentee "has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it . . . without any conditions." *See* Opp. to Cert. Br. at 8-9. But the Federal Circuit and Lexmark misapprehended the way that the Supreme Court in those decisions used the terms "unconditional sale" or a sale "without any conditions."

Traditionally, a "conditional sale" of property was one in which title did not pass *until a condition-precedent* had passed. *See* Pet. App. at 115a, citing *Harkness v. Russell*, 118 U.S. 663, 665 (1886) and *Motion Picture Patents*, 243 U.S. at 520-21 (Holmes, J. dissenting ("[A] conditional sale retaining the title until a future event after delivery has been decided to be lawful again and again by this court."). In the post-sale restrictions at issue here, however, there is no "condition" that must occur before title to the patented product passes to the purchaser. The post-sale restrictions here are more properly characterized as collateral or tangential contract provisions.

4. The Federal Circuit majority further incorrectly reasoned that without a "conditional sale" exception to patent exhaustion, there would be two different patent exhaustion tests for (a) "a practicing-entity patentee that makes and sells its own product" versus (b) a "non-practicing-entity that licenses others to make and sell the product." Pet. App. at 26a. The Federal Circuit, however, misunderstood the actual distinction in the law.

The distinction that exists under the Supreme Court's broad exhaustion test is not between licensee sales and patentee sales—it is between authorized and unauthorized sales. The *Quanta* test itself reflects this distinction. *Quanta* requires a sale "authorized" by the patentee in order to exhaust the patent, regardless of who actually makes the sale. *Quanta*, 553 U.S. at 638. This gives rise to four possible scenarios:

(a) Any sales directly made by the patentee are of course logically "authorized" by the patentee and trigger exhaustion.

(b) Any sales by an infringing, unrelated third party are logically "unauthorized" by the patentee and do not trigger exhaustion.

(c) A patentee can grant a license to another company to make and sell the patented product. If it wishes, the patentee can give that manufacturer-licensee permission to sell the product only within a certain geographic area or field of use. If the manufacturer-licensee makes an authorized sale to a customer (e.g., the manufacturer licensee sells within the scope of its authorization in the license), patent exhaustion is then triggered. That was the exact scenario in *Quanta*. *See Quanta*, 553 U.S. at 625.

(d) A manufacturer-licensee, however, might also make a sale in violation of its license (e.g., sales outside of a permitted area or field of use). In that scenario, the sale by the manufacturer-licensee in violation of the agreement is *un*authorized because the patentee never gave the manufacturer-licensee permission to make the sale. And because the patentee never sold the product to the manufacturer-licensee (it only licensed the manufacturer-licensee to make the product) there was no "authorized sale" between them to trigger patent exhaustion either. With no authorized first sale, patent exhaustion is not triggered, and subsequent use is infringing. That was the exact scenario in *Mitchell v. Hawley*, 83 U.S. 544, 550 (1872) (unauthorized sale by licensee did not trigger patent exhaustion) and *General Talking Pictures Corp. v. Western Elec. Co.*, 305 U.S. 124, 127 (1938) (same).

In other words, a broad patent exhaustion doctrine does not treat sales by a licensee/manufacturer differently from those by a patentee—it treats authorized and

unauthorized sales differently, regardless of who made them. Nor does a broad patent exhaustion rule mean that "non-practicing entities" have "greater power to maintain their patent rights than practicing entities," as the Federal Circuit incorrectly found. *See* Pet. App. at 45a. A practicing patentee can decide for itself when to make an authorized sale, while a non-practicing patentee can decide under what conditions a licensee's sale is authorized. The end result is the same—the patentee decides which sales are authorized, and all authorized sales trigger patent exhaustion.

For the same reasons, the Federal Circuit's concern that a broad patent exhaustion doctrine would "introduce practical problems," such as determining where "the line [would] be drawn along the spectrum from original patentees to assignees (e.g., regional assignees) to exclusive licensees . . . to nonexclusive licenses," is nonexistent. For each of these entities, the line is the same—if the patentee authorized the first sale, then exhaustion is triggered, regardless of any post-sale restrictions.

IV. THE FEDERAL CIRCUIT'S HOLDING THAT FOREIGN SALES DO NOT TRIGGER PATENT EXHAUSTION IS ERRONEOUS

A. The Federal Circuit's Complete Rejection of Patent Exhaustion for Foreign Sales is Contrary to This Court's Precedent

The Federal Circuit also incorrectly decided whether non-U.S. sales of a patented product exhaust U.S. patent rights. Namely, the Federal Circuit *en banc* upheld an earlier panel decision in *Jazz Photo*, 264 F.3d at 1102-07

that such sales do not trigger patent exhaustion. This decision contradicts *Kirstaeng*, 133 S. Ct. at 1363-64 and the common law articulated therein.

1. In *Kirstaeng*, the Court concluded that an authorized sale of a copyrighted book outside the U.S. *did* give rise to copyright exhaustion. *See id.* at 1363-64. Although the Court there addressed copyright exhaustion, rather than patent exhaustion, it found that the deeply-seated common law prohibiting restraints on property *generally* mandated this result. *See Kirstaeng*, 133 S. Ct. at 1363.

The Court found that the first sale doctrine is a "common-law doctrine with an impeccable historical pedigree" rather than something unique to the copyright statute. *Id.* The Court broadly recognized that "[a] law that permits a copyright holder to control the resale or other disposition of a chattel once sold" is "against Trade and Traffic, and bargaining and contracting." *Id.* The Court also recognized (a) "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods" and (b) that a broad first sale doctrine frees courts from "the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods." *Id.* at 1363-64. The Court then concluded that "[t]he common-law doctrine makes no geographical distinctions" and that a "straightforward application" of the rule "would not preclude the 'first sale' defense from applying to authorized copies made overseas." *Id.* at 1363-64.

Each of these rationales applies equally to patent exhaustion. International patent exhaustion—just like the international copyright first sale doctrine—will

promote the same consumer interests and avoid the same administrative burdens. The Court has previously noted parallelisms between the property interests in a copyright versus a patent. *See, e.g., Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (recognizing a "historic kinship between patent law and copyright law").

It was only after the Court in *Kirstaeng* recognized the general common law principles of patent exhaustion that it analyzed whether the copyright statute (§109(a)) nevertheless limited the common law rule. *See Kirstaeng*, 133 S. Ct. at 1364. It found that although the copyright statute did address first sale, it did not mandate against exhaustion based on international sales. *See id.* Because the patent statute has no applicable statutory provision that even needs analysis, it also cannot limit the broad common law rule disfavoring restraints on alienation.

2. The Federal Circuit and Lexmark base their contrary conclusion—that foreign patent exhaustion should be treated differently than foreign copyright exhaustion—on a misinterpretation of *Boesch v. Graff*. *See* 133 U.S. 697, 701-02 (U.S. 1890). *Boesch*—decided over 100 years ago—does not stand for the proposition claimed by the Federal Circuit and Lexmark.

Boesch did not hold that authorized foreign sales cannot exhaust a U.S. patent. *See id.* at 701-02. Rather, in *Boesch*, there was no foreign sale that was authorized by the U.S. patentee (e.g., a sale from the U.S. patentee or from an entity licensed by the U.S. patentee)—the sale in *Boesch* was made in Germany by an unrelated third party, who was only able to sell there due to a provision of German law. *Id.* at 701-02. *Boesch* recognized that the

party attempting to subsequently import the patented product into the U.S. was doing so "without the license or consent of the owners of the United States patent." *Id.* at 702. In other words, *Boesch's* ruling is completely consistent with applying *Quanta's* test to foreign authorized sales.

B. The Court Should Not Adopt the Government's "Express Reservation" Standard

Rather than argue in favor of either Impression's straight-forward position (consistent with *Kirstaeng*) that patent exhaustion is triggered by a first authorized sale regardless of geography, or the Federal Circuit's complete rejection of patent exhaustion for foreign sales, the United States as *amicus curiae* has proposed a third alternative. The government contends that U.S. patent rights should be exhausted by a foreign sale unless they are "expressly reserved." *See* U.S. Br. at 15. The government cited a number of various lower-court decisions to that effect. *See id.* at 18. The government's position, however, is unsupported for two reasons.

1. Each of the lower court decisions cited by the government predates *Kirstaeng*, which settled any ambiguities regarding exhaustion of U.S. property rights through international sales. *See id.* Prior to *Kirstaeng*, numerous lower courts had also believed (similar to the government's position for patents) that foreign sales of a copyrighted material authorized only for sale abroad did not trigger domestic exhaustion. *See, e.g., Adobe Sys., Inc. v. Christenson*, 891 F. Supp. 2d 1194, 1203-1204 (D. Nev. 2012) (gathering cases). *Kirstaeng*, however, overturned those cases based on the general common law against restraints on alienation of goods. *See supra* at § IV.A.

2. The same reasoning articulated in *Quanta*, *Univis*, and *Motion Picture Patents* compels that a foreign post-sale "reservation of rights" can no more circumvent patent exhaustion than can a domestic "conditional sale." *See supra* at § III.A. As this Court has recognized, "[t]he common-law doctrine [against restraints on alienation of goods] makes no geographical distinctions." *Kirstaeng*, 133 S. Ct. at 1363 (emphasis added). *See also id.*, citing 1 E. Coke, Institutes of the Laws of England § 360, at 223 (1628) (recognizing in the context of foreign sales of U.S.-protected goods "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods"). Moreover, the same policy reasons and practical concerns that make the Federal Circuit's "conditional sale" exception to exhaustion unworkable for domestic sales (e.g., how to determine whether downstream purchasers had sufficient notice) make the government's foreign "reservation of rights" exception untenable. *See supra* at § II.C.

CONCLUSION

For the reasons discussed, *amicus curiae* AMDR requests that the *en banc* decision of the Federal Circuit below be reversed.

January 24, 2017 Respectfully Submitted,

ROBERT A. SURRETTE
Counsel of Record
CHRISTOPHER M. SCHARFF
McANDREWS, HELD, AND MALLOY, LTD.
500 West Madison Street, Suite 3400
Chicago, Illinois 60661
(312) 775-8000
bsurrette@mcandrews-ip.com

Counsel for Amicus Curiae Association of Medical Device Reprocessors

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IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF ASSOCIATION OF SERVICE AND COMPUTER DEALERS INTERNATIONAL, INC./NORTH AMERICAN ASSOCIATION OF TELECOM DEALERS AND OWNERS' RIGHTS INITIATIVE AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

W. Douglas Kari, Esq.
Counsel of Record
Principal in ASCDI Member
ARBITECH, LLC
Attorney for Amici Curiae
15330 Barranca Parkway
Irvine, California 92618
949-936-2302
doug.kari@arbitech.com

January 23, 2017

QUESTIONS PRESENTED

In *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), the Court held that textbooks manufactured and first sold abroad, which bore legends to the effect of "Not for sale in the United States," could lawfully be imported and resold in the U.S. under the first sale doctrine. This case presents essentially the same issues under patent law:

1. Whether "conditional sale" of a patented item—a sale that transfers ownership while purportedly imposing restrictions, much like the "Not for sale in the United States" legends in *Kirtsaeng*—trumps patent exhaustion.

2. Whether the principles underlying the holding in *Kirtsaeng*—that the first sale doctrine is based on common law's abhorrence of restraints on alienation and makes no geographical distinctions—apply with equal force in the patent arena.

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STATEMENT OF INTEREST

The questions presented have enormous practical implications for the organizations represented in this brief and the constituencies they serve.[1] *Amicus curiae* Association of Service and Computer Dealers International, Inc./North American Association of Telecom Dealers ("ASCDI") is a trade group of nearly 300 small-to-medium technology companies.[2] ASCDI members deal in technology products that practice U.S. patents, are often acquired overseas, and support technology users across America.

Amicus curiae Owners' Rights Initiative ("ORI") is a broad coalition that seeks to protect ownership rights in personal property.[3] ORI's members include nonprofits such as the American Library Association, the Association of Research Libraries and Goodwill Industries International, Inc. ("Goodwill Industries"); companies such as eBay Inc. ("eBay"), Redbox Automated Retail, LLC ("Redbox") and Radwell International Inc.; and trade groups

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[1] This brief is filed with the written consent of the parties pursuant to Supreme Court Rule 37.3(a). Petitioner consented in an email sent to counsel for *amici curiae*; respondent filed a blanket consent on December 16, 2016. Pursuant to Rule 37.6 the *amici curiae* submitting this brief and its counsel represent that no party to this case or its counsel authored this brief in whole or in part, and no person other than *amici curiae* and its counsel paid for or made a monetary contribution toward the preparation and submission of this brief.

[2] *See* www.ascdi.com.

[3] *See* www.ownersrightsinitiative.org.

such as United Network Equipment Dealers Association and ASCDI.

SUMMARY OF ARGUMENT

The bright-line rule of patent exhaustion advocated by petitioner is crucial to everyone in the U.S. who relies on technology products. Technology products are entwined in patents; the average smartphone, for example, is covered by approximately 250,000 patents.[4] The products are often traded in secondary markets, and cross international borders, before they land with the "end users."[5] This trade is essential to keep supplies flowing and computers running, especially in times of shortage.

Case in point: "NAND flash memory," a type of memory used in smartphones, tablets and computer servers.[6] As of January 2017, NAND flash memory

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[4] *See* SEC Form S-1 filed on Sept. 2, 2011 by RPX Corporation, a company providing patent services, http://www.sec.gov/Archives/edgar/data/1509432/000119312511240287/ds1.htm#toc226103_11.

[5] *See* Stephen J. Bigelow, *Secondary-Market Resellers Thrive in the Tech Industry*, TECHTARGET (Apr. 2008), http://searchitchannel.techtarget.com/feature/Secondary-market-resellers-thrive-in-the-tech-industry.

[6] NAND flash memory is a type of computer memory that does not require power to retain data, and unlike conventional hard drives has no moving parts. *See NAND flash memory*, TECHTARGET, http://whatis.techtarget.com/definition/NAND-flash-memory.

is in short supply.[7] To alleviate the shortage, end users across America are relying on ASCDI members to source NAND flash products overseas and import them to the U.S. However, a thicket of patents surrounds NAND flash products.[8] If the decision by the Federal Circuit Court of Appeals[9] is affirmed, and rights holders emerge from the thicket and claim patent infringement, this vital supply channel will be threatened.[10]

It is ironic that Lexmark advocates for conditional sales and against international exhaustion when

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[7] *See* Editor, *Shortage of NAND Flash to Cause Prices of SSDs and EMMCs to Rise by Over 10% in Q1 2017*, CTIMES (Dec. 12, 2016), https://en.ctimes.com.tw/DispNews.asp?O=HK0CC93KN2SSAA00NO; Gina Roos, *Supply Shortage of NAND Flash Worsens in Q4*, EPS NEWS (Oct. 12, 2016), https://epsnews.com/2016/10/12/supply-shortage-nand-flash-worsens-q4/ (two of the numerous trade articles about the NAND flash memory shortage).

[8] *See NAND Flash patents*, FRESH PATENTS, http://tgs.freshpatents.com/Nand-Flash-bx1.php (list of patent applications related to NAND flash memory); Daniel Siegal, *Ex-Weil Attys DQ'd By Micron In Flash Memory Patent Fight*, LAW360 (May 18, 2015), https://www.law360.com/articles/657395/ex-weil-attys-dq-d-by-micron-in-flash-memory-patent-fight (referencing multiple patents related to NAND flash memory).

[9] *Lexmark International, Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016).

[10] *See* Stefan M. Meisner & James Buchanan Camden, *Supreme Court Will Spill Some Ink Regarding Patent Exhaustion Doctrine*, NAT'L L. REV. (Dec. 28, 2016), http://www.natlawreview.com/article/supreme-court-will-spill-some-ink-regarding-patent-exhaustion-doctrine.

the company, its counsel Sidley Austin LLP, and major Lexmark customers rely on secondary market trade in patented products to support their computer systems. So do countless other end users across America.

The Court has consistently enabled such trade by establishing clear boundaries between ownership rights and intellectual property ("IP") rights. In copyright law under cases such *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), and in patent law under cases such as *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008) and *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013), the Court has held that an authorized sale exhausts IP rights in the item being sold. This intuitive and easy-to-apply rule allows products to move through commerce to where they are needed, and to be put to use, without fear of reprisal by IP rights-holders. ASCDI and ORI respectfully urge the Court to reaffirm the exhaustion rule in the contexts presented here.

ARGUMENT

The decision by the Federal Circuit Court of Appeals clouds title to countless items and gives patent holders the right to restrict supply of essential technology products. This approach to patent exhaustion is fraught with danger, especially in times of shortage. ASCDI and ORI urge the Court to reaffirm a bright-line rule of patent exhaustion, unencumbered by international borders and

shrink-wrap conditions, because such rule is consistent with *Quanta*, *Bowman* and *Kirtsaeng*, and enables organizations and consumers to obtain the products they need.

I. COMPUTERS, DVDs AND OTHER PRODUCTS ARE ENTWINED IN PATENTS

Every major technology product in demand today exists amidst a thicket of patents. The smartphone, entangled in 250,000 patents, is the quintessential example,[11] but countless other technology products are subject to active patents. In 2016 alone, the U.S. Patent & Trademark Office ("USPTO") issued an average of more than 25,000 patents per month.[12] Nearly all of the top twenty patent recipients were technology companies.[13]

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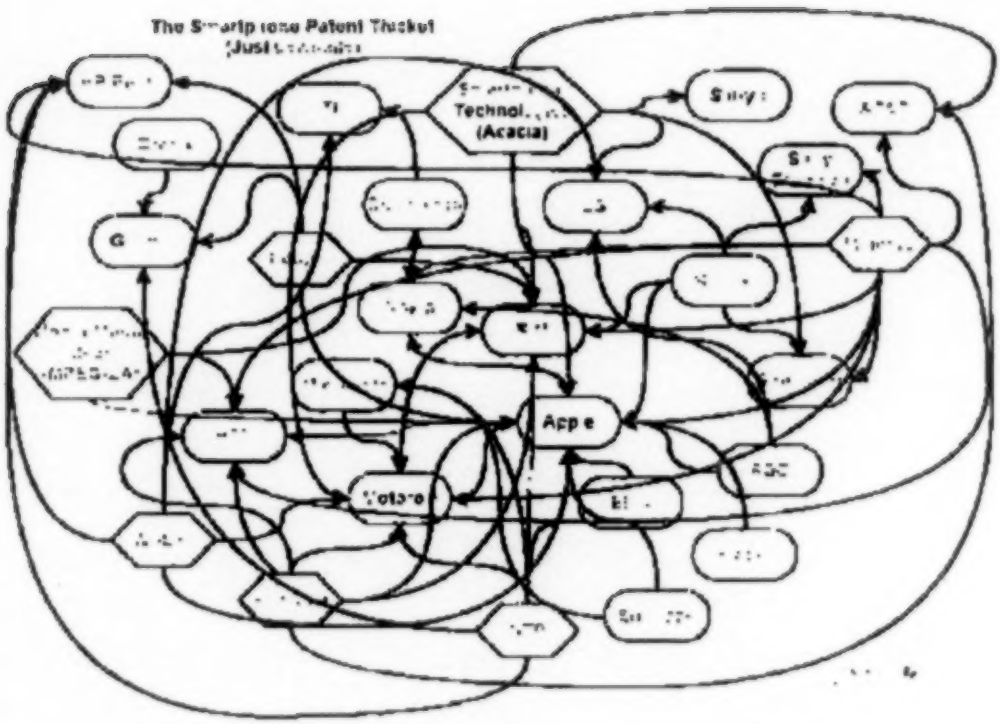
[11] *See* Mike Masnick, *There Are 250,000 Active Patents That Impact Smartphones; Representing One In Six Active Patents Today*, TECHDIRT (Oct. 8, 2012), https://www.techdirt.com/blog/innovation/articles/20121017/10480520734/there-are-250000-active-patents-that-impact-smartphones-representing-one-six-active-patents-today.shtml (includes the illustration reproduced in the brief of the smartphone patent thicket).

[12] *See* Tom Kivett, *IFI CLAIMS Announces 2016 U.S. Patent Ranking*, IFI CLAIMS PATENT SERVICES (Jan. 6, 2017), http://www.ificlaims.com/index.php?page=news&type=view&id=ifi-claims%2Fifi-claims-announces_7 (stating that USPTO issued 304,126 utility patents in 2016).

[13] *See* Ann Bednarz, *IBM Scores Most Patents in 2016, Apple Just Misses Top Ten*, NETWORK WORLD (Jan. 9, 2017), http://www.networkworld.com/article/3155506/data-center/ibm-scores-most-patents-in-2016-apple-doesnt-crack-top-10.html.



As a result, for most technology products it is functionally impossible to identify all of the patent holders and what they claim, yet for someone who gets caught in the thicket the risks are enormous:

> Searching patents is prohibitively costly and inconclusive, yet the risks of inadvertent infringement are substantial, including injunction, disproportionate damages or an order barring importation from the International Trade Commission.[14]

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[14] *See* Editor, *Too Many Patents*, PATENT PROGRESS, http://www.patentprogress.org/systemic-problems/too-many-patents/; Richard Waters, *Technology: Mired in a Legal Morass*, FINANCIAL TIMES (May 9, 2012), https://www.ft.com/content/5564b9f6-99b9-11e1-8fce-00144feabdc0.

Besides smartphones, myriad everyday items are entwined with patents—for example DVDs,[15] video games[16] and cameras.[17] Another example is the wristwatch,[18] a product type that came before the Court in *Omega S.A. v. Costco*,[19] a first sale doctrine case that was a predecessor to *Kirtsaeng*.[20] Even books can implicate patents in how they are bound and covered.[21]

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[15] *See* DVD6C Licensing Group, http://www.dvd6cla.com/list.html (referencing some of the many DVD patents).

[16] *See* Ben Kuchera, *Patents on Video Game Mechanics Strangle Innovation, Fun,* ARS TECHNICA (Mar. 9, 2008), http://arstechnica.com/gaming/2008/03/patents-on-video-game-mechanics-may-strangle-innovation.

[17] *See* Steve Brachmann, *The Evolution of Digital Cameras—A Patent History,* IPWATCHDOG (Oct. 28, 2014), http://www.ipwatchdog.com/2014/10/28/the-evolution-of-digital-cameras-a-patent-history/id=51846/.

[18] *See, e.g.,* Design Patent, *The Rolex Watch Design Patent,* http://www.patentadesign.com/gallery/rolex-watch-design-patent.html; Justia, *Patents by Assignee Timex Corporation,* http://patents.justia.com/assignee/timex-corporation; Dale Vito, *IN THE WORKS: Omega's High Tech Bezel,* WATCHBASE (Dec. 6, 2016), http://watchbase.com/blog/2016/12/06/in-the-works-omegas-high-tech-bezel/ (discussing a patent application for an Omega watch).

[19] 541 F.3d 982 (9th Cir. 2008), *aff'd* in an equally-divided *per curium* decision, (no. 08-1423).

[20] *See* Doug Kari, *How an eBay Bookseller Defeated a Publishing Giant at the Supreme Court,* ARS TECHNICA (Nov. 25, 2014), http://arstechnica.com/tech-policy/2014/11/how-an-ebay-bookseller-defeated-a-publishing-giant-at-the-supreme-court.

[21] *See* Justia, *Bookbinding: Process And Apparatus Patents (Class 412),* http://patents.justia.com/patents-by-us-classification/412.

The point is that in today's technology-laden world, patents have become ubiquitous and in many cases impenetrable.

II. ASCDI AND ORI'S CONSTITUENCIES RELY ON AVAILABILITY OF PATENTED PRODUCTS

The constituencies of ASCDI and ORI—and by extension, virtually all people and organizations in America—rely on availability of technology goods and other patented products. As a practical matter, those products are often traded in secondary markets and cross international borders before they reach the end users.[22] Following are examples of the constituencies who benefit from this.

A. Users of NAND Flash Memory

Many Americans have never heard of NAND flash memory, yet most carry it within reach. NAND flash is a type of memory found in tablets, USB drives and smartphones.[23] According to Pew Research, some 68 percent of U.S. adults own a smartphone and 45 percent own a tablet.[24] NAND

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[22] *See* Bigelow, *supra* n.5. *See also* Andy Geldman, *The World's Top eBay Sellers*, WEB RETAILER (Jul. 19, 2016), http://www.webretailer.com/lean-commerce/worlds-top-ebay-sellers/ (top 100 eBay sellers include dealers in computers, watches and DVDs).

[23] *See* Roos, *supra* n.7.

[24] Monica Anderson, *Technology Device Ownership: 2015*, PEW RESEARCH CENTER (Oct. 29, 2015), http://www.pewinternet.org/2015/10/29/technology-device-ownership-2015/.

flash memory is also utilized in many computer servers, especially in solid state drives that hold valuable data.[25]

However, starting in the summer of 2016, a shortage developed of NAND flash, due to a surge in demand for smartphones, especially the iPhone 7, and solid state drives used in servers.[26] As a result, ASCDI members began acquiring NAND flash products in overseas markets. Here is a sampling of end users in the U.S. who benefitted from that trade:[27]

National Center for Genome Resources	**Santa Fe, NM**
Advocate Christ Medical Center	**Oak Lawn, IL**
City of Paso Robles	**Paso Robles, CA**
Numeric Investors	**Marlborough, MA**

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[25] *See* Kingston, *NAND Flash Technology and Solid State Drives (SSDs),* https://www.kingston.com/us/community/articledetail/articleid/12.

[26] *See* Robert Castellano, *A Shortage of NAND Flash Memory Is Coming Soon—What Caused It and What Will Be Its Impact,* SEEKING ALPHA (May 16, 2016), http://seekingalpha.com/article/3975215-shortage-nand-flash-memory-coming-soon-caused-will-impact.

[27] This list, compiled by ASCDI's membership, represents a sampling of end users who received shipments of solid state drives that were acquired overseas in the secondary market, imported to the U.S. and shipped to end users in the latter half of 2016. All of these shipments are evidenced by packing lists that show the products shipped and the recipients.

Flightsafety Services Corp.	**Centennial, CO**
YMCA of Long Island	**Glen Cove, NY**

This is only a sampling—there are numerous other end users in the U.S. who have received NAND flash products that were acquired through international, secondary-market trading. However, because NAND flash exists in a thicket of patents,[28] the limitations on patent exhaustion imposed by the Federal Circuit threaten that trade. ASCDI members and their customers should not have to risk patent infringement liability for reaching overseas to find the NAND flash products that they need. *See Kirtsaeng*, 133 U.S. at 1365 (applying a geographical limitation to the first sale doctrine would subject trade in copyrighted items to "the disruptive impact of the threat of infringement suits").

B. Users of Hard Drives

Five years ago Thailand was battered by typhoons—it was the worst monsoon season in half-a-century. As seen below, floodwaters inundated the industrial zone in Thailand where most of the world's hard drives are manufactured:[29]

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[28] *Supra* n.8.

[29] Photo by Thomas Fuller. *See* Thomas Fuller, *Thailand Flooding Cripples Hard-Drive Suppliers*, NY TIMES (Nov. 6, 2011), http://www.nytimes.com/2011/11/07/business/global/07iht-floods07.html.

As the shortage intensified, ASCDI members scoured overseas markets to find hard drives for their U.S. customers. Following are a few of the end users who benefitted from that trade:[30]

U.S. Navy— Strategic Systems	**Washington, D.C.**
N.Y. Museum of Modern Art	**New York, NY**
VA Medical Center	**Dayton, OH**
Underwriters Laboratories	**Northbrook, IL**

[30] This list, compiled by ASCDI's membership, represents a sampling of end users who received shipments of hard drives that were acquired overseas in the secondary market, imported to the U.S. and shipped to end users during late 2011 or early 2012, during the time of the worldwide hard drive shortage. All of these shipments are evidenced by packing lists that show the products shipped and the recipients.

Vassar College	**Poughkeepsie, NY**
The Nature Conservancy	**Arlington, VA**

Again, this is only a sampling of the many American end users who received gray-market hard drives in a time of shortage. But hard drives are subject to numerous patents; the largest patent verdict in history involved hard drives.[31] Enforcement of the restrictions advocated by Lexmark would have imperiled this supply channel during what was, in the technology world, a time of crisis.

C. Users of Other Tech Products

Many other patented technology products move through secondary markets to end users in the U.S. Ironically, those products sometimes end up benefitting organizations that oppose gray market trade. Examples of this include:

Lexmark International Inc.	**Lexington, KY**

Lexmark has received hard drives, host bus adapters, PCI cards, port replicators and other items traded in secondary markets.[32]

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[31] *See* Joe Mullin, *Chipmaker Hopes to Overturn Largest Patent Verdict Ever: $1.5 Billion*, ARS TECHNICA (Apr. 10, 2015), http://arstechnica.com/tech-policy/2015/04/chipmaker-hopes-to-overturn-largest-patent-verdict-ever-1-5-billion.

[32] This list, compiled by ASCDI's membership, represents products that were acquired in secondary markets, mostly overseas, and shipped to Lexmark International, Inc. All of

Sidley Austin LLP **Chicago, IL**

Counsel for Lexmark has received servers, hard drives, memory, daughter cards, DVD-ROMs and other items traded in secondary markets.[33]

John Wiley & Sons, Inc. **East Millstone, NJ**

Respondent in *Kirtsaeng* has received storage controllers, PCI cards, memory, host bus adapters and other items traded in secondary markets.[34]

Additionally, major customers of Lexmark[35] rely on international, secondary market trade in patented technology products to keep their com puter systems operational. There are many example of this—below are just a few:[36]

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these shipments are evidenced by packing lists that show the products shipped and the recipient.

[33] This list, compiled by ASCDI's membership, represents products that were acquired in secondary markets, mostly overseas, and shipped to Sidley Austin LLP. All of these shipments are evidenced by packing lists that show the products shipped and the recipient.

[34] This list, compiled by ASCDI's membership, represents products that were acquired in secondary markets, mostly overseas, and shipped to John Wiley & Sons, Inc. All of these shipments are evidenced by packing lists that show the products shipped and the recipient.

[35] *See* Featured Customers, *167 Lexmark Case Studies*, https://www.featuredcustomers.com/vendor/lexmark-2/case-studies (case studies involving Lexmark customers).

[36] This list, compiled by ASCDI's membership, represents shipments of products that were acquired in secondary mar-

Ardent Health Systems	**Brentwood, TN**
U.S. Army	**Winchester, VA**
Columbia Sportswear	**Portland, OR**
Methodist Hospital	**Brooklyn, NY**
Loyola University	**Baltimore, MD**
Cummins Inc.	**Columbus, IN**

In other words, Lexmark advocates for crushing restrictions on gray market trade, while disregarding that its customers, its counsel and its own personnel utilize gray market products to keep their computer systems running.

D. Users of Defense Systems

Availability of spare parts is vital for national defense. Because many defense systems continue to use older technology, defense contractors are sometimes "desperate to find the parts they need."[37] ASCDI members such as XS International, Inc. in Alpharetta, Georgia, and Sotel Systems LLC in Maryland Heights, Missouri, supply refurbished technology products to every branch of the military

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kets, mostly overseas, and shipped to Lexmark customers. All of these shipments are evidenced by packing lists that show the products shipped and the recipient.

[37] Benj Edwards, *If It Ain't Broke, Don't Fix It: Ancient Computers in Use Today*, PC WORLD (Feb. 19, 2012), http://www.pcworld.com/article/249951/if_it_aint_broke_dont_fix_it_ancient_computers_in_use_today.html.

and most major defense contractors. Sometimes the only way for them to find these older parts is to acquire products that were first sold overseas. Encumbering overseas products with unexhausted patent rights threatens this mission-critical source of supply.

E. Users of DVDs and Blu-ray Discs

DVDs exist amidst a thicket of patents, with claimants such as Hitachi, Sanyo, Toshiba, Sony, Phillips, Pioneer and others.[38] Blu-ray discs[39] and video games[40] also implicate numerous patents. Many of these products are produced at manufacturing plants overseas[41] and move through commerce via international trading platforms provided by companies such as eBay (an ORI member) and Amazon.[42] The constituencies who buy and sell on these trading platforms need a clear and workable rule, not a rule that requires them to investigate

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[38] *See* DVD6C Licensing Group, *DVD Patent Joint Licensing Program Frequently Asked Questions*, http://www.dvd6cla.com/faq.html.

[39] *See* Blog, *Patent Pool One-Blue and Several Licensors File Suit Against Imation Over Blu-ray Patents*, ESSENTIAL PATENT BLOG (May 24, 2013), http://www.essentialpatentblog.com/2013/05/patent-pool-one-blue-and-several-licensors-file-suit-against-imation-over-blu-ray-patents/.

[40] *See* Kuchera, *supra* n.16.

[41] *See, e.g.*,Wikipedia, *Sony Digital Audio Disc Corporation*, https://en.wikipedia.org/wiki/Sony_Digital_Audio_Disc_Corporation (listing manufacturing plants).

[42] *See* Geldman, *supra* n.22.

the place of first sale and whether there was a conditional sale, on pain of being sued for patent infringement.

Libraries in the U.S. also provide DVDs and Blue-ray discs to their constituencies, lending approximately two million units per day.[43] ORI member American Library Association, which represents some 57,000 libraries nationwide,[44] focuses special attention on reaching underserved populations such as rural and native communities, older adults and people of color.[45] The movies collected by its member libraries include not only mainstream titles but also many foreign films.[46] Companies such as Redbox, another ORI member, also lend millions of DVDs, Blue-ray discs and video games to customers nationwide.[47]

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[43] *See* Blog, *Libraries Lend More Movies Than Netflix, Study Finds*, HUFFINGTON POST (Jul. 30, 2010), http://www.huffingtonpost.com/2010/07/30/libraries-lend-more-movie_n_664989.html.

[44] American Library Ass'n, *ALA Annual Membership Statistics*, http://www.ala.org/membership/membershipstats_files/annual_memb_stats.

[45] *See* America Library Ass'n, *Outreach to Underserved Populations*, http://www.ala.org/advocacy/diversity/outreach-tounderservedpopulations.

[46] *See* Kim Velsey, *Study: Libraries Top The Competition In Lending Movies*, HARTFORD COURANT (Jul. 26, 2010), http://articles.courant.com/2010-07-26/business/hc-library-movies-0726-20100725_1_library-services-library-circulation-higher-circulation-rate.

[47] Redbox rents movies and games at approximately 35,000 locations in the U.S. *See* Redbox.com, *Facts About Redbox*, http://www.redbox.com/facts.

These constituencies cannot reasonably be expected to navigate through a thicket of patents in deciding which discs they can lend and borrow, versus which are tainted by patent restrictions. *See Kirtsaeng*, 133 S. Ct. at 1364 ("How, the American Library Association asks, are the libraries to obtain permission to distribute these millions of books?") They need a user-friendly rule: Once there has been an authorized sale, patent rights in that item have been exhausted, and the item can be distributed without fear of infringement liability.

F. Users of Consumer Products

Many other consumer products, such as cameras,[48] watches[49] and home appliances,[50] are implicated by patents. Again, these products often move through commerce via trading platforms such as eBay and Amazon.[51] *See id.* at 1365 ("Retailers tell us that over $2.3 trillion worth of foreign goods were imported in 2011"). Then, as the products age, some are donated to charity. The buyers and sellers of these patented products, the trading platforms on which they do business, charities such as ORI member Goodwill Industries, and the constituen-

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[48] *See* Brachmann, *supra* n.17.

[49] *Supra* n.18.

[50] *See* Steve Brachmann, "*Inventing for Convenience –Whirlpool Focuses on Optimizing Home Appliances*, IPWATCHDOG (Jan. 19, 2015), http://www.ipwatchdog.com/2015/01/19/whirlpool-focuses-on-optimizing-home-appliances/id=53760/.

[51] *See* Bigelow, *supra* n.5; Geldman, *supra* n.22.

cies they serve, need a rule of patent exhaustion that can readily be applied to everyday transactions. They cannot reasonably be expected to assess the patent-exhaustion status of every item that changes hand.

III. THE COURT SHOULD REAFFIRM A BRIGHT-LINE RULE OF PATENT EXHAUSTION

ASCDI and ORI concur in the legal analysis offered by petitioner Impression Products, Inc., and will not restate that analysis here. However, four points are worth emphasizing in the context of *amici* and the constituencies they serve.

A. A Bright-Line Rule Is Consistent with Intuitive Reasoning and Aligns with *Kirtsaeng*

Most owners of technology products and other patented goods have an intuitive sense of where the boundaries lie between IP rights and ownership rights. For example, an eBay user who buys a DVD that was originally sold in Canada presumably knows that he has not acquired manufacturing rights, but probably assumes that he can use his copy of the game in the U.S. and later loan it to a friend. A traveler who buys a watch in Switzerland has no reason to think that she is entitled to sell knockoffs, but probably believes that she can bring the watch back to the U.S. without it being seized as contraband.

However, prior to *Kirtsaeng*, uncertainty existed under copyright law about owners' rights to engage in such intuitively-reasonable transactions.[52] The Court in *Kirtsaeng*, by affirming a rule of exhaustion without geographical limitation, struck the proper balance between copyright and ownership.[53] The opinion by Justice Stephen Breyer garnered praise and there has been no legislation introduced in Congress to undercut it.[54] Put simply, the rule works. ASCDI and ORI respectfully submit that the same intuitive rule should be applied in the context of patent exhaustion.

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[52] *See* Jennifer Waters, *Your Right To Resell Your Own Stuff Is In Peril*, MARKET WATCH (Oct. 12, 2012), http://www.marketwatch.com/story/your-right-to-resell-your-own-stuff-is-in-peril-2012-10-04; Marvin Ammori, *If You've Ever Sold a Used iPod, You May Have Violated Copyright Law*, THE ATLANTIC (Jun. 8, 2012), http://www.theatlantic.com/national/archive/2012/06/if-youve-ever-sold-a-used-ipod-you-may-have-violated-copyright-law/258276/.

[53] *See* Mike Masnick, *Supreme Court Gets It Right In Kirtsaeng: You Can Resell Things You Bought Abroad Without Infringing*, TECHDIRT (Mar. 19, 2013), https://www.techdirt.com/articles/20130319/08094922377/supreme-court-gets-it-right-kirtsaeng-you-can-resell-things-you-bought-abroad-without-infringing.shtml.

[54] *See, e.g.*, Editorial, *The Limits of Copyright Law*, LA TIMES (Mar. 20, 2013), http://articles.latimes.com/2013/mar/20/opinion/la-ed-copyright-kirtsaeng-supreme-court-20130320; Gary Shapiro, *Supreme Court Gives American Consumers Victory Over Copyright Owners in Kirtsaeng vs. John Wiley & Sons*, FORBES (Mar. 20, 2013), http://www.forbes.com/sites/garyshapiro/2013/03/20/supreme-court-gives-american-consumers-victory-over-copyright-owners-in-kirtsaeng-vs-john-wiley-sons.

B. The Federal Circuit's Approach Is Impractical and Also Inconsistent with the Court's Precedents

Technology products contain many components; the smartphone is a prime example. It has "big parts" such as the on/off switch, processor (aka CPU), memory (aka RAM) and at least a dozen other items,[55] and also "small parts" such as capacitors, diodes, resistors and transistors.[56] Each of these parts is layered in patents.[57] With so many parts and so many patents, as a practical matter, who can say whether a given diode or resistor was first sold domestically or abroad, and what conditions one of the patent holders may have purported to impose?

In past cases, the Court has avoided such quandaries by applying a bright-line rule of exhaustion. Under copyright law, as stated in *Kirtsaeng*, the first sale doctrine "frees courts from the adminis-

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[55] *See* Santosh Das, *Parts of a Mobile Cell Phone and Their Function (Big Parts)*, MobileCellPhoneRepairing.com (Aug. 18, 2015), http://www.mobilecellphonerepairing.com/parts-of-a-mobile-cell-phone-and-their-function-big-parts.html.

[56] *See* Santosh Das, *Small Parts/Electronic Components of Mobile Cell Phone and Their Function*, MobileCellPhoneRepairing.com (Aug. 18, 2015), http://www.mobilecellphonerepairing.com/small-parts-electronic-components-of-mobile-phone-and-their-function.html.

[57] *See* Masnick, *supra* n.11 and accompanying illustration.

trative burden of trying to enforce restrictions upon difficult-to-trace, readily moveable goods." 133 S. Ct. at 1363. Under patent law, the Court's recent cases articulate similar rationales; there is no hint of any policy or other reason why the doctrine of patent exhaustion should diverge. *See Quanta*, 533 U.S. at 625 ("the initial authorized sale of a patented item terminates all patent rights to that item"); *Bowman*, 133 S. Ct. at 1764 ("the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article"). ASCDI and ORI respectfully submit that the Court should take the same approach in the contexts presented here.

C. Conditional Sales Interfere With Ownership Rights

As stated by one commentator, the Federal Circuit's decision is "dangerous in the way that it undercuts the notion of ownership and transfer of title." [58] For example, when a seller sells a computer, title passes to the buyer, and the buyer (now the owner) generally recognizes the computer as an asset on its books.[59] But what if the computer was originally sold with conditions—is it still a viable

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[58] *See* Dennis Crouch, *Can Patent Rights Overwhelm Traditional Notions of Title?*, PATENTLYO (Mar. 22, 2016), http://patentlyo.com/patent/2016/03/overwhelm-traditional-notions.html.

[59] *See* Jean Murray, *What is the Book Value of an Asset?*, THE BALANCE (May 7, 2016), https://www.thebalance.com/what-is-the-book-value-of-an-asset-398146.

asset?

Or suppose the owner wants to get asset-based financing. Typically the owner and a lender would enter into a loan agreement that grants the lender a security interest in the computer. In the event of default, the lender could exercise its security interest by liquidating the computer.[60] Again, what if the computer was originally sold with conditions—is it valid collateral?

In effect, the Federal Circuit has created a compromised category of personal property, with rights divided among the so-called owner and any patent holders who hold a continuing interest. Do you think you own your smartphone? Not so fast—patent holders may control your right of resale. This is a modern-day illustration of why the law has long disfavored restraints on alienation. *See Kirtsaeng*, 133 S. Ct. at 1364-66 (explaining why common law's reluctance to permit restraints on alienation remains relevant). A bright-line rule of patent exhaustion avoids such a morass by confirming that sale of a patented item is truly a sale, with the buyer gaining the full bundle of ownership rights. *See United States v. Univas Lens Co.*, 316 U.S. 241, 250 (1942) (holding that sale of a patented article "exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his

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[60] *See* Robert A. Modansky, *Asset-Based Financing Basics*, JOURNAL OF ACCOUNTANCY (Jul. 31, 2011), http://www.journalofaccountancy.com/issues/2011/aug/20113992.html.

patent, control the use or disposition of the article").

D. Do Not Count on Rights Holders To Exercise Restraint

As in *Kirtsaeng*, rights holders in this case may claim that the concerns expressed by interested parties such as ASCDI and ORI are hypothetical, and ask why the "horribles" have not happened yet. *See* 133 S. Ct. at 1366. The realistic answer is that the market has not caught on. Patent law is viewed as an arcane discipline, and the exhaustion cases have mostly involved recycling of patented products.[61] However, if Lexmark is willing to devote time and money in litigating against a small toner-recycling company such as Impression Products, imagine what patent holders will do if emboldened by a favorable decision of this Court.[62] They may profess an intention to exercise restraint, but to borrow from Justice Breyer in *Kirtsaeng*, "we are less sanguine." *Id.*

Access to essential technology products should not depend on the good graces of patent holders who may not have the best interests of American

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[61] *See, e.g., Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

[62] *See* Doug Kari, *Op-Ed: Lexmark's War Against a Man Who Recycles Toner Cartridges*, ARS TECHNICA (Aug. 29, 2015), http://arstechnica.com/tech-policy/2015/08/op-ed-lexmarks-war-against-a-man-who-recycles-toner-cartridges/.

end users in mind. ASCDI, ORI and the constituencies they serve require the legal protection of a clear and workable exhaustion rule.

CONCLUSION

The Federal Circuit's decision clouds title to countless patented items, and gives patent holders the right to interfere in trade that is vital for members of ASCDI, ORI and the constituencies they serve. The decision is unworkable as a practical matter, and unwarranted under *Quanta, Bowman, Kirtsaeng*, and other precedents. ASCDI and ORI respectfully urge the Court to reverse the decision and reaffirm a bright-line rule of patent exhaustion.

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/S/ W. Douglas Kari
W. Douglas Kari
Counsel for *Amici Curiae*

RECORD AND BRIEFS

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IMPRESSION PRODUCTS, INC.,

Petitioners,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* AUSTIN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

DAVID W. O'BRIEN
Counsel of Record
HONG SHI
HAYNES AND BOONE, LLP
600 Congress Ave., Suite 1300
Austin, TX 78701-3285
(512) 867-8457
david.obrien@haynesboone.com

Counsel for Amicus Curiae
AUSTIN INTELLECTUAL
PROPERTY LAW ASSOCIATION

QUESTIONS PRESENTED

1. Whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article authorized by the U.S. patentee-that takes place outside of the United States exhausts the U.S. patent rights in that article.

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INTEREST OF *AMICUS CURIAE*[1]

Amicus curiae Austin Intellectual Property Law Association ("Austin IPLA") is a bar association located in Austin, Texas with approximately 250 members engaged in private and corporate practice across a wide range of industries and technologies. (*See* www.austin-ipla.org.) Austin IPLA members represent both the owners and users of intellectual property. Austin IPLA takes no position on the ultimate outcome of the parties' dispute, particularly whether sales of particular patented articles authorized by the respondent that take place outside of the United States operate to exhaust the respondent's U.S. patent rights in issue in the parties' dispute. Austin IPLA's sole interest is that the integrity of the Patent Act be maintained through consistent interpretation of statutes, doctrines, and intellectual property rights.

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[1] Pursuant to Supreme Court Rule 37.6, *amicus* states that no counsel for a party authored this brief in whole or in part; and that no person or entity, other than *amicus* and its counsel, made a monetary contribution intended to fund the preparation and submission of this brief. All parties to this dispute have consented to the filing of this brief, and letters of consent have been lodged with the Court.

SUMMARY OF THE ARGUMENT

This brief is directed to the second question and considers whether the holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) applies with equal force to patent exhaustion. Because unexpressed aspects of the copyright regime underpin that holding, the Court should exercise caution before applying *Kirtsaeng* to a patent exhaustion regime that does not involve the same considerations.

The Court has long recognized "wide differences" between copyright and patent regimes and observed that particular questions require separate analysis for each body of law. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 346 (1908). Parties and other *amici* may address, more generally, differences or similarities in the laws; however, this amicus brief focuses on two identity inquiries that are necessarily satisfied for copyright exhaustion but not patent exhaustion. These inquiries are the identity of rights in each jurisdiction and the identity of instance between the originally sold article and that for which rights are exhausted.

For copyright exhaustion, both identities are satisfied in the context of Section 109(a) of the Copyright Act. Specifically, a particular textbook (*i.e.*, a copy under the Act) lawfully made and thereafter sold in Thailand is subject to a globally uniform system of copyright. That global system ensures that the first sale in Thailand is framed by exclusive rights, which are commensurate with those applicable to a copy first sold in the United States. Moreover, it is that particular copy sold in Thailand—no more, no less, no adaptation or

derivation or performance thereof—to which exhaustion is limited under § 109(a). Thus, the aforementioned identities, unexpressed in *Kirtsaeng* itself, are nonetheless latent in its copyright context.

For patent exhaustion, in contrast, the two identity inquiries are not necessarily satisfied. There is no globally uniform system of patent rights, and hence, no identity of rights in each jurisdiction. Furthermore, the identity of instance inquiry lies at the heart of a long-recognized repair-reconstruction doctrine that limits patent exhaustion: Has post-sale alteration or use of a product preserved the identity of a product instance? ... or has it altered the identity of the product and thereby made a new product instance? *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961); *cf. Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013).

The Court therefore should recognize that differences between the copyright and patent laws, particularly identity inquiries latent in the context of § 109(a) of the Copyright Act, counsel against reflexive application of *Kirtsaeng* to patent exhaustion.

ARGUMENT

I. Differences between Patent Law and Copyright Law Caution against Reflexive Importation of *Kirtsaeng* into Patent Law.

Copyrights and patents are imperfect legal analogies. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908) (acknowledging the long-recognized distinctness of the copyright and patent regimes and observing that particular questions require separate analysis for each body of law). "There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which relate to the one subject are not altogether controlling as to the other." *Id.* at 346.

The Court has also recognized that there are significant uniformity and international reciprocity aspects to copyright law. *See Kirtsaeng*, 133 S. Ct. at 1359–60 (observing that American copyright laws protect "works 'first published' in any one of the nearly 180 nations that have signed a copyright treaty with the United States"). The Berne Convention, first signed in 1886, created a uniform system of copyright protection globally. *See* Berne Convention for the Protection of Literary and Artistic Works (Paris text 1971). The Convention requires its signatories to provide the same protection to works originating in other member States as the signatory grants to the works of its own nation. *See* Berne Convention, art. 5(1). There are over 150 signatories to the Berne Convention, which the United States joined in 1989. *See Golan v. Holder*, 132 S. Ct. 873, 877-78 (2012) (discussing the Berne Convention).

Whereas the Berne Convention affords global protections to copyrighted works by reciprocity, there is no analogous system that protects patented inventions. *See* World Intellectual Property Organization, Frequently Asked Questions: Patents, http://www.wipo.int/patents/en/faq_patents.html (last visited January 18, 2017) ("At present, you cannot obtain a universal 'world patent' or 'international patent.' Patents are territorial rights."). Applicants must apply for patent protection in the various countries and regions where they seek to obtain exclusivity for their inventions. *See id.* ("[A]n application for a patent must be filed, and the patent [is] granted and enforced[] in each country ... in accordance with the law of that country."). Although the Paris Convention provides for reciprocity of priority claims, correspondence of exclusive rights does not follow. Even patents granted in different territories for the same invention are independent of one another, and the enforcement mechanisms are independent of one another. *See* Paris Convention for the Protection of Industrial Property, art. 4bis (Mar. 20, 1883).

These global uniformity differences should cause the Court to question unqualified application of *Kirtsaeng*'s territorially-agnostic principles to patent exhaustion. For copyright law, once an original work of authorship is fixed in a tangible medium, copyright protection automatically inures in the author of the work who then enjoys copyright protection in nations across the globe pursuant to the Berne Convention. No further steps are required to define the essential scope[2] of that copyright protection. The copyright

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[2] *Amicus curiae* Austin IPLA recognizes that variation exists amongst the national laws of jurisdictions of the world and that

arises in each jurisdiction based on the very same genesis, an original authorship. As such, the identity in U.S. and foreign jurisdictions of the copyright relevant in the *Kirtsaeng* context is assured.

Patent rights are different. Patents involve government approval processes with varying standards. As such, for a particular inventive concept, different countries may, after their own independent examination processes, issue patents having claims with significantly different scope. Specifically, the scope of a granted U.S. patent right and that of a patent (if any) applied for and granted in any given foreign jurisdiction need not correspond at all. The claims that define each are negotiated in view of potentially different bodies of prior art, against differing backdrops of substantive law, with potentially different commercial objectives, and, given first-to-file regimes operative in most jurisdictions, may even be applied for by, and granted to, entirely different entities.

Unlike the effectively identical copyrights that automatically arise in different jurisdictions for an original work based on the common, scope-of-right-defining genesis of authorship, even U.S. and foreign patent rights that share common priority and ownership can differ substantially in scope. Indeed, in many (if not most) foreign jurisdictions, no patent

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the particular bundle of rights that may be afforded protection under the copyright laws of a particular nation varies. For example, while many copyright regimes around the world recognize *droit moral*, particularly in the context of pictorial or sculptural works, others do not. Nonetheless, for works of the sort contemplated by the § 109(a) context that frames *Kirtsaeng*, a largely equivalent distribution right can be presumed outside the United States.

coextensive with a U.S. patent right will ever be granted and, as a result, no corresponding exclusive right exists in that foreign jurisdiction. Moreover, one country may issue a patent for a particular invention, while another country may deny protection for the same invention or require compulsory license.

Thus, an extension of *Kirtsaeng*-inspired international exhaustion to patent law based on a "single reward principle" is potentially misplaced. Is *any* reward at all garnered for a product, component, or subassembly manufactured and initially vended in a foreign jurisdiction that affords no protection whatsoever to the U.S. patent owner? In such circumstances, unqualified application of *Kirtsaeng* could, in effect, nullify the patent owner's U.S. patent rights in derogation to a foreign power and a nonexistent foreign right.

This is not to say that a patent owner may not voluntarily, whether expressly or impliedly, through terms of sale or license make its patented product, component or subassembly subject to a grant of U.S. or worldwide rights.[3] However, the Court should exercise caution in applying *Kirtsaeng* in a manner that is unqualified or absolute.

II. Differences in Applicable Identity Inquiries Have Shaped Exhaustion

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[3] In this regard, the positions of *amicus curiae* Austin IPLA should not be construed as calling into question decisions of the lower courts, such as *SanDisk Corp. v. Round Rock Research, LLC*, No. 11-cv-5243, 2014 WL 2700583 (N.D. Cal. June 13, 2014), *Multimedia Patent Trust v. Apple Inc.*, No. 10-cv-2618-H (KSC), 2012 WL 6863471 (S.D. Cal. Nov. 9, 2012), and *Tessera, Inc. v. Int'l Trade Comm'n*, 646 F.3d 1357 (Fed. Cir. 2011) that give effect to an expressed intent to license world-wide rights.

Differently in the Patent Law and Copyright Law Contexts.

A. For copyright's "first sale" doctrine, identity is relatively straightforward and arguably guaranteed in the context of § 109(a).

The Copyright Act confers copyright protection in "original works of authorship" fixed in any tangible medium of expression. 17 U.S.C. § 102(a). Copyright protection does not extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery. § 102(b). Section 106 of the Copyright Act provides a bundle of exclusive rights to the owner of the copyright, which includes the rights to reproduce, prepare derivative works, distribute copies, and control public performances and public displays of the copyrighted work. § 106.

Under the copyright "first sale" doctrine, codified in 17 U.S.C. § 109(a), the sale of a copy of a copyrighted work has "exhausted" the copyright owner's § 106(3) exclusive distribution right of that copy. *See Kirtsaeng*, 133 S. Ct. at 1355. However, the exhaustion does not extend to the copyright owner's other exclusive rights. *See Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191 (1931). In *Buck*, the defendant asked the Court to extend the exhaustion to the copyright owner's exclusive public performance right, relying by analogy on *Bobbs-Merrill*. *Id.* at 195-97. Rejecting the defendant's analogy, the Court wrote, "[i]t is true that control of the sale of copies is not permitted by the Act, but a monopoly is expressly granted of all public performances for profit." *Id.* at 197. Thus, even after the exhaustion doctrine applies

to a particular copy, that copy remains encumbered with a prohibition against any unlicensed use for a public performance, and each public performance requires a separate grant of permission by the copyright owner.

Applying the copyright "first sale" doctrine involves an identity inquiry to determine that the particular copy or phonorecord for which exhaustion is in issue post-sale is the same copy or phonorecord that was lawfully manufactured. *See* § 109(a). Such an identity inquiry under the copyright "first sale" doctrine is straightforward and closely aligns with the essentially uniform protection afforded that particular copy or phonorecord throughout the world.

Moreover, § 109(a) explicitly limits exhaustion to the § 106(3) distribution right, which aligns with the identity of the instance principle. *See* § 109(a). In exercising the distribution right, an owner of a particular copy does not alter the copy in such a way that it becomes difficult to determine whether the alteration maintains the identity of the copy. Indeed, alteration of the copyrighted work would implicate the separate, unexhausted right to prepare derivative works. Thus, copyright exhaustion and, indeed, the § 109(a) context that underlies *Kirtsaeng* avoid issues presented by any divergence of identity as between the particular copy to which a first sale pertains and that for which rights may later be found to be exhausted.

B. In contrast, for patent exhaustion, identity inquiries relative to the post-sale product are more involved and shaped

by factual, rather than statutory, context.

The Court has described patent exhaustion in absolute terms. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) (The authorized sale of a patented item "terminates all patent rights to that item."). Despite the apparent absolutism, some tension exists with other decisions of the Court, such as *Aro* and *Bowman*, at least with respect to an identity of instance inquiry central to repair-reconstruction doctrines and to distinctions between permissible use or resale and impermissible re-making in self-replicating technologies. *See Aro*, 365 U.S. at 346; *Bowman*, 133 S. Ct. at 1768 ("Reproducing a patented article no doubt 'uses' it after a fashion. But ... we have always drawn the boundaries of the exhaustion doctrine to exclude that activity, so that the patentee retains an undiminished right to prohibit others from making the thing his patent protects.").

Moreover, while *Quanta* and *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), describe a fact-specific analysis involving essential or inventive features, that analysis is also identity-centric. *See Quanta*, 533 U.S. at 633 (relying on a characterization of Intel Products as "all but completely practic[ing] the patent," or lacking only the "application of common processes or the addition of standard parts," or embodying "[e]verything inventive about each patent.").

Detailed treatment of *Quanta* is beyond the scope of this amicus brief. Nevertheless, in contrast with the identities between authorship-defined scope of the copyright and particulars of a copy first sold

and later imported, which are necessarily satisfied in the § 109(a) context latent in *Kirtsaeng*, patent exhaustion involves a more fact-intensive series of identity inquiries involving that which is essential or inventive. Those patent exhaustion-related inquires include analysis of the patent claims, the particulars of a product that is the subject of an authorized first sale, and the particulars of a (potentially different) product resulting from post-sale alterations or further manufacture.

Focusing illustratively on repair-reconstruction motivated identities, for patent exhaustion, an authorized sale of a patented article confers on the purchaser the right to use that article, but not the right to make a new article. *Aro*, 365 U.S. at 343; *see also Wilson v. Simpson*, 50 U.S. 109, 126 (1850) ("replacement of temporary parts does not alter the *identity* of the machine, but preserves it, though there may not be in it every part of its original material.") (emphasis added). Accordingly, an identity inquiry of the repair-reconstruction doctrine seeks to determine whether an owner obtained the very article at issue by an authorized sale, and to determine whether an alteration to that article is a permissible "repair" that retains the article's identity or an impermissible "mak[ing of] a new article" (reconstruction) that alters the article's identity. *See Aro*, 365 U.S. at 346.

Even after the sale of the patented article, the patentee retains an undiminished right to prohibit others from making the thing his patent protects. *See, e.g.*, *Bowman*, 133 S. Ct. 1761 (holding that a purchaser could resell the patented seeds he obtained from a grain elevator, or use them as feed, but that he could not produce additional seeds); *Cotton-Tie Co.*

v. Simmons, 106 U.S. 89, 93-94 (1882) (holding that a purchaser could not "use" the buckle from a patented cotton-bale tie to "make" a new tie). Given the fact-specific nature of patent exhaustion, whether for a repair-reconstruction analysis under *Aro*, or even relative to a substantial embodiment analysis under *Quanta*, it would be problematic if the Court were to apply territorially-agnostic reasoning in *Kirtsaeng* to patent exhaustion in a manner that is unqualified or absolute.

We now turn to additional complexities in the international realm.

C. Foreign sales exacerbate the complexity of the identity inquiry in patent exhaustion.

After a foreign sale of a patented article, that article may be transferred through a supply chain to successive owners who are not the original purchaser, but who integrate or employ the originally sold article or its derivative in a way that may not preserve its identity. In general, the original article may be altered by the original purchaser, the subsequent owners, or third parties prior to being imported into the United States. Transfers and alterations performed in foreign countries have been found to create evidentiary challenges for the repair-reconstruction analysis.

In *Fuji Photo Film*, the Federal Circuit addressed evidentiary issues in just such a situation. *See Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed. Cir. 2005) (applying a repair-reconstruction analysis to products first sold in the United States, then refurbished in a foreign country).

The defendant's struggle to provide evidence for its repair defense illustrates challenges for the repair-reconstruction analysis in an international context. *See Id.* at 1373-75 (detecting no clear error in the district court's assessment that Jazz "did not provide sufficient evidence that all eight of its Chinese supplier factories performed the nineteen repair steps").

Repair is an affirmative defense, and in *Fuji Photo Film*, the defendant bore a preponderance burden. *Id.* at 1374. Regarding the burden, the Federal Circuit warned, "We cannot exculpate unknown processes from the charge of infringing reconstruction." *Id.* In *Fuji Photo Film*, the defendant acknowledged that its refurbishment procedures comprised a possible total of nineteen refurbishment steps, performed by eight supplier factories located in China. *Id.* at 1371. For five of the eight supplier factories, however, discovery was refused or the evidence that was offered was found incomplete or not credible. *Id.* at 1374. While the defendant's refurbishment process was ultimately found to be permissible repair, because of the deficiencies in evidence as to certain steps and suppliers, the Federal Circuit affirmed the district court's finding that only 10% of the defendant's products at issue were permissibly repaired. *Id.* at 1372.

As with the products at issue in *Fuji Photo Film*, patented articles that are the subject of an authorized foreign sale may involve multiple foreign transfers in addition to foreign alteration or further manufacture. As a result, instance identities for such patented articles may be difficult to establish or trace in a manner necessary to establish evidence pertinent

to patent exhaustion. Given the fact-specific nature of patent exhaustion, whether for a repair-reconstruction analysis under *Aro*, or relative to a substantial embodiment analysis under *Quanta*, it would be unfortunate if the Court were to apply the territorially-agnostic holding from the copyright decision *Kirtsaeng* to patent exhaustion in a manner that is unqualified or absolute.

CONCLUSION

For the foregoing reasons, *amicus curiae* Austin IPLA suggests that the principles underlying the holding in *Kirtsaeng* regarding the "first sale" doctrine in copyright law should be understood in their proper Copyright Act context. Doing so ensures that identities in the more fact-specific doctrines of patent exhaustion, such as repair-reconstruction and substantial embodiments are properly examined and not simply presumed. The Court should be very careful not to adopt a legal doctrine that reflexively applies the territorially-agnostic holding from *Kirtsaeng* to U.S. patent rights in an absolute or unqualified manner.

Respectfully submitted,

DAVID W. O'BRIEN
Counsel of Record
HONG SHI
HAYNES AND BOONE, LLP
600 Congress Avenue, Suite 1300
Austin, TX 78701-3285
(512) 867-8457
david.obrien@haynesboone.com

Counsel for Amicus Curiae
AUSTIN INTELLECTUAL PROPERTY
LAW ASSOCIATION

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RECORD
AND
BRIEFS

No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF *AMICI CURIAE* OF AUTO CARE ASSOCIATION AND INTERNATIONAL IMAGING TECHNOLOGY COUNCIL IN SUPPORT OF THE PETITIONER

SETH D. GREENSTEIN
Counsel of Record
CONSTANTINE CANNON LLP
1001 Pennsylvania Ave., N.W.
Suite 1300 North
Washington, D.C. 20004
(202) 204-3500
sgreenstein@constantinecannon.com

Counsel for Amici Curiae Auto Care Association and International Imaging Technology Counsel

Becker Gallagher · Cincinnati, OH · Washington, D.C. · 800.890.5001

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STATEMENT OF INTEREST[1]

Amici are not-for-profit associations that, *inter alia*, represent the interests of companies that compete against original equipment manufacturers ("OEMs") for sale of replacement parts and consumable goods, and for provision of services that constitute lawful repair under the patent laws.[2]

Auto Care Association ("Auto Care") is a national trade organization of 3,000 members representing more than 150,000 independent businesses that manufacture, distribute, and sell motor vehicle parts, accessories, tools, equipment, materials, and supplies, and perform vehicle service and repair. This independent auto care industry adds some $340 billion annually to the American economy (about 1.9% of GDP), and provides employment to more than 4.3 million workers.

International Imaging Technology Council ("I-ITC") represents the interests of the imaging supplies industry, including office-machine retail and repair, office-supply retail, computer retail, repair and networking companies, and all related industry suppliers. An estimated 2,000 domestic businesses

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[1] The parties have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than amicus curiae, its members, or its counsel made a monetary contribution to its preparation or submission.

[2] Various industries call these repair activities "rebuilding," "recharging," "reconditioning," "customization," or "remanufacturing."

employ some 50,000 workers in the United States to recondition and repair office imaging supplies. In 2015, consumers spent more than $15 billion for repair and maintenance of electronic and precision equipment, approximately $5 billion of which was attributable to computer and office machine repair and maintenance.[3]

Companies represented by amici run the gamut from large, technologically-sophisticated entities with substantial intellectual property portfolios to small operators that service local customers. The technology products they manufacture, service, and sell contain removable and consumable parts that can be repaired or refurbished many times. Following expiration of a new car warranty, over 70% of car owners who patronize auto repair shops rely on independent repair shops over new car dealers. Acquisition guidelines of federal agencies, state and municipal governments, and corporations give preference to purchasing refurbished and recycled toner cartridges.[4] The computer printers in Court chambers likely use recycled remanufactured cartridges.

The businesses built by amici depend on the patent exhaustion doctrine for their right to repair equipment.

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[3] U. S. Census Bureau, 2015 Annual Services Report, Table 2: Estimated Revenue by Tax Status for Employer Firms: 2007 through 2015, www.census.gov/services/index.html.

[4] Environmental Protection Agency, Comprehensive Procurement Guidelines, Non-paper Office Products, https://www.epa.gov/smm/comprehensive-procurement-guidelines-non-paper-office-products#08.

The Federal Circuit's decision[5] threatens that right to repair by granting patentees new ways to preclude exhaustion and, thereby, block competition that benefits domestic commerce and consumer rights. Therefore, the amici respectfully submit this brief so the Court may better understand the harm the Federal Circuit's misinterpretation of the exhaustion rule will cause to aftermarket commerce generally and our industries in particular.

SUMMARY OF ARGUMENT

Businesses that maintain, repair, customize, refurbish, and resell durable goods rely on this Court's long-standing precedents holding the authorized sale of a patented article exhausts the patentee's right to restrict post-sale uses of that article. This exhaustion principle, rooted in the common law, has consistently been an essential balancing element in our patent laws. After an authorized sale, any commercial terms that purport to limit the purchaser's post-sale rights are to be adjudged under contract law. This articulation of the exhaustion rule properly balances the patent owner's exclusive rights with the consumer's right to reuse, resell, repair, and improve lawfully-acquired property, and the public interest to prevent unfair competition.

Impression Products upends this balance, to the detriment of competition and the public interest.

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[5] *Lexmark Int'l, Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016) (hereinafter "*Impression Products*").

1. The line of cases from *Mallinckrodt*[6] to *Impression Products* attempts to resurrect exhausted patent rights following an authorized sale, thereby enabling patent owners to assert infringement against consumers and third-party competitors for otherwise-lawful repair. *Impression Products* effectively outlaws commonplace activities, such as repair and customization of elements of a personal computer, an automobile, or any products with consumable or repairable parts, unless performed by or under license from the patentee. Consumers and aftermarket competitors targeted by these post-sale restrictions may not know whether the restriction exists or, even if embossed on the device itself, whether the restriction is valid or enforceable. Yet, under *Impression Products*, these consumers and aftermarket competitors could be sued and potentially held liable for patent infringement.

Impression Products cannot be squared with the holding of *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) that an authorized sale exhausts the patentee's rights. There is no dispute in this case that all Lexmark's cartridge sales, to end-users and resellers, were authorized sales. Full title passed to the first purchaser upon the authorized sales, and upon that sale Lexmark's right to assert its patents against post-sale uses terminated. The restriction purportedly imposed by the notice neither restricted the right to sell, nor retained any rights under patent law prior to the sale. By its terms, as a matter of contract law, that restriction became a binding legal obligation only upon

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[6] *Mallinckrodt, Inc. v. Medipart,* Inc., 976 F.2d 700 (Fed. Cir. 1992).

opening the box or installing the cartridge – not at time of purchase; and it only restricted, post-sale, the recycling of the empty cartridge. As a result, all patent rights were exhausted upon the first sale, and any post-sale limitations could be enforceable only under contract or commercial law.

2. *Impression Products* would impose unbounded liability upon purchasers of imported patented articles, regardless of whether the owner of the foreign and domestic patents had authorized the sale. While "the inconvenience and annoyance to the public" from *Impression Products* may well be "too obvious to require illustration,"[7] here is but one example. Automobiles "made" in the United States incorporate hundreds of patented parts, many of which are manufactured abroad. Conversely, automobiles "made" in foreign countries use parts designed and manufactured in the United States. It is impossible for a consumer or servicer to know where each part was first sold, whether a part is patent-protected, or who owns the patents on a part. Neither the holding of the Federal Circuit nor the rule proposed by the United States gives any practical way for purchasers of such automobiles, whether produced domestically or abroad, to know whether repairs or resales are authorized or infringing.

Impression Products ignores the holding of this Court in *Kirtsaeng*[8] that the common law underlying patent exhaustion has no geographic limitations. Thus,

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[7] *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 667 (1895).

[8] *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363-1364 (2013).

contrary to the *Jazz Photo*[9] line of cases, an authorized sale by the owner of the U.S. patent exhausts all rights under that patent, regardless of whether the sale first is made abroad.

3. The threat of potentially devastating patent infringement liability chills competition by aftermarket businesses. Patent suits involve technically complex issues of infringement, claim construction, and validity, and are extremely expensive to defend. Enhanced damages, attorney fees, and preliminary and permanent injunctive relief pose intolerable risks for smaller entrepreneurial companies. By contrast, suits based on contract, as should be the norm under the Court's exhaustion rule, are far less expensive to defend and less likely to jeopardize a company's long-term survival. Reaffirmation of this Court's exhaustion rule will protect the public's right to repair and stimulate investment in aftermarket industries.

Reaffirming the scope of patent exhaustion will restore the proper balance between patent rights and antitrust law. Post-sale patent conditions and infringement lawsuits typically target competitors for supplies and repair services rather than purchasers that purportedly agreed to the restrictions. By misinterpreting the scope of patent exhaustion, the Federal Circuit necessarily proscribes lawful aftermarket competition and limits antitrust defenses – thereby restricting consumer choice, increasing consumer prices, and stifling aftermarket innovation.

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[9] *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001).

ARGUMENT

I. *QUANTA* REJECTED PATENT-BASED POST-SALE USE RESTRAINTS, THERE-BY OVERRULING THE "CONDITIONAL SALES" THEORY UNDERPINNING *IMPRESSION PRODUCTS*.

In *Quanta*, this Court held that an *authorized sale* exhausts all of the patent-holder's rights in the vended article, such that downstream restrictions on post-sale uses of such article cannot be enforced under patent law. *Id.*, 553 U.S. at 621, 625, 631, 636, 637 & n.7, 638.[10] *Quanta* overruled *L.G. Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006) ("*Bizcom*") which, in turn, relied on the *Mallinckrodt* line of cases that held, *despite* an authorized sale, post-sale conditions on use (a "conditional sale") could preserve a patentee's rights against exhaustion. But *Quanta*'s teaching is clear: an authorized sale terminates the

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[10] *Quanta* left open the possibility that a patent owner might retain *contract law* remedies for breach of post-sale conditions, while making clear that *patent law* remedies are unavailable. *Quanta* is only the most recent reflection of the Court's hostility to attempts to use patent law, rather than contract law, to enforce post-sale restrictions:

> "[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws."

Keeler v. Standard Folding-Bed Co., 157 U.S. at 666.

patentee's rights in that article, and renders downstream post-sale use conditions unenforceable under patent law.

The outcome here is equally clear. Lexmark authorized the cartridge sales to its customers in the United States and abroad. Lexmark's resellers had "full authority to sell the Return Cartridges that practiced Lexmark's patents"; hence, the notices of a restriction on the end user "do not prevent patent rights from being exhausted given that the initial sales were authorized and unrestricted."[11] Under *Quanta*, therefore, patent law cannot prevent otherwise-lawful post-sale use following an authorized sale. "[T]he fully authorized sales of the Return Program cartridges to consumers for use in the ordinary pursuits in life took the cartridges outside the scope of the patent monopoly despite the notices contained on those cartridges, and Lexmark may not now rely on patent law to hold Impression Products liable for infringement."[12]

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[11] *Lexmark Int'l Inc. v. Ink Techs. Printer Supplies, LLC*, 2014 U.S. Dist. LEXIS 41045, at *22 (S.D. Ohio Mar. 27, 2014) ("*Ink Techs.*"). The district court in *Static Control Components v. Lexmark Int'l, Inc.*, likewise found all Lexmark's cartridge sales were authorized. 615 F. Supp. 2d 575, 584-585, 588 (E.D. Ky. 2009).

[12] *Ink Techs.*, 2014 U.S .Dist. LEXIS 4105, at *24. *See also Static Control*, 615 F. Supp. 2d at 584 ("Lexmark attempts to reserve patent rights in its products through post-sale restrictions on use imposed on its customers. This is what *Quanta* says Lexmark cannot do.").

A. Under *Quanta*, Post-Sale Use Restrictions Cannot Revive Patent Rights Exhausted by Authorized Sale.

Quanta turned on the fundamental distinction between licenses restricting the right to *sell* and post-sale conditions on *use*. Patentholder LG Electronics ("LGE") had not restricted Intel's authority to sell microchips, but attempted by written notices to impose use restrictions on the microchip purchasers. The Federal Circuit, following its prior rulings that patent exhaustion is not triggered by a "conditional" sale,[13] held LGE's notice made Intel's sales conditional and no exhaustion occurred. *Bizcom*, 453 F.3d at 1369. This Court reversed. Reaffirming that exhaustion occurs upon an authorized sale, *Quanta* precluded patent-based enforcement of LGE's post-sale use restrictions because the restrictions did not limit Intel's authority to sell.[14]

Impression Products places undue weight on the Patent Act's definition of patent infringement as "without authority." 35 U.S.C. § 271(a). Courts must presume that Congress intended to retain the substance of the common law of exhaustion unless

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[13] *B. Braun Med. Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir.1997); *Mallinckrodt*.

[14] *Quanta* also struck down the *Bizcom* (and *Mallinckrodt/B. Braun*) rationale allowing a patent owner to claim royalties at multiple points in the usage chain, as inconsistent with its exhaustion determinations in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852); *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873); *Keeler*, *supra* note 7, at 5; and *United States v. Univis Lens, Inc.*, 316 U.S. 241 (1942). *Cf. Keurig, Inc. v. Sturm Foods, Inc.*, 732 F.3d 1370, 1375 (Fed. Cir. 2013).

clearly amended by statute.[15] No contrary intention is evident from the Patent Act. This Court has made clear (over more than 150 years) that the requisite "authority" of the purchaser comes from the common law of exhaustion. And the Court's post-1952 cases reinforce the scope and reach of the exhaustion doctrine, thereby confirming that nothing in the Patent Act overrides the common law of patent exhaustion. *See, e.g.*, *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013); *Quanta*; *see also Kirtsaeng*.

The Federal Circuit's "conditional sales" theory blurs crucial distinctions in this Court's precedents between restrictions on a licensee's authority to sell and a purchaser's rights after authorized sale. From the first articulations of the patent exhaustion doctrine in *Bloomer*, the Court held: "when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.*, 55 U.S. (17 Wall.) at 549. Applying that rule in *Adams v. Burke*, the Supreme Court held that restrictions circumscribing a licensee's right to sell could not restrict the purchaser's post-sale right to use. *Id.*, 84 U.S. at 455.

Impression Products misconstrues *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938), the holding of which is consistent with *Bloomer*, *Quanta*, and the district court below in *Ink Techs.* In *General Talking Pictures*, the patent owner licensed the manufacture of patented amplifiers with a

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[15] *See Samantar v. Yousuf*, 560 U.S. 305, 320 n.13 (2010); Antonin Scalia & Bryan A. Garner, *Reading Law: The Interpretation of Legal Texts* 318 (2012).

restriction on the manufacturer's right to sell to commercial users. *Id.* at 179-180. Any sale by the licensee to commercial users violated the license field of use, so by definition was an unauthorized sale that did not trigger exhaustion. Accordingly, *General Talking Pictures* reached a different conclusion based on distinguishable facts. *General Talking Pictures* illustrates the distinction between authorized and unauthorized sales—not whether post-sale conditions survive exhaustion after an authorized sale.[16]

Further evidence that *General Talking Pictures* addressed the authority to sell and not a post-sale right to use is found in its discussion of *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1873). The license in *Mitchell* explicitly provided that licensee "shall not, in any way, or form, dispose of, sell, or grant any license to use the said machines" beyond the initial patent term. *Id.* at 549. The licensee "never had any power to sell a machine so as to withdraw it indefinitely from the operation of the franchise secured by the patent." *Id.* at 551. Accordingly, "[Respondent in *Mitchell*] could not convey to petitioner what both knew it was not authorized to sell." *Gen. Talking Pictures*, 304 U.S. at 181 (citation omitted). Thus, *General Talking Pictures* does not address the situation here, where no restriction applied at the time of the authorized sale, and provides no support for *Mallinckrodt*'s "conditional sales" theory.

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[16] That Court declined to address whether a post-sale use condition can restrict a purchaser's rights after an authorized sale, inasmuch as the sales were unauthorized. *Id.*, 304 U.S. at 177.

B. *Mallinckrodt*'s Conditional Sales Theory was Overruled by *Quanta*.

Both courts to directly consider the question[17] and the majority of commentators[18] recognize that *Quanta* overruled the "conditional sales" theory of *Mallinckrodt*. By squarely reversing the "conditional sales" exception in *Bizcom*, *Quanta* necessarily rejected the same holding in the cases upon which *Bizcom* relied—*Mallinckrodt* and *B. Braun*. That rejection is evident when applying *Quanta*'s exhaustion rule to the facts of *Mallinckrodt*: the authorized sale to the hospitals would exhaust the patentee's right and render that "single use only" restriction unenforceable under patent law.

It is irrelevant that *Quanta* did not reverse *Mallinckrodt* by name. *Impression Prods.*, 816 F.3d at

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[17] *Ink Techs.*, 2014 U.S. Dist. LEXIS 41045, at *22-24; *Static Control*, 615 F. Supp. 2d at 585-586 ("*Quanta* overruled *Mallinckrodt sub silentio*. The Supreme Court's broad statement of the law of patent exhaustion simply cannot be squared with the position that the *Quanta* holding is limited to its specific facts. Further, the Federal Circuit relied in part on *Mallinckrodt* in reaching its decision in ... the decision the Supreme Court reversed in *Quanta*"); *see also Ergowerx Int'l LLC v. Maxell Corp. of Am.*, 18 F. Supp. 3d 430, 448 (S.D.N.Y. 2014).

[18] *See, e.g.*, John F. Duffy and Richard M. Hynes, *Statutory Domain and the Commercial Law of Intellectual Property*, 102 Va. L. Rev. 1 (2016); Alfred C. Server and William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following Quanta*, 64 Hastings L.J. 561, 596 (Apr. 2013); Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. L.G. Electronics, Inc.*, 49 IDEA – Intell. Prop. L. Rev. 517, 533 (2009) ("*Mallinckrodt's* 'conditional sale' rationale is no longer good law.").

738. *Quanta* also reversed *Bizcom*'s holding on exhaustion of method patents, thereby overruling *sub silentio* the Federal Circuit's pre-*Bizcom* cases that held method patents could not be exhausted.[19] The same is true for *Mallinckrodt*'s "conditional sales" theory.

C. Lexmark's "Return" Program Terms Do Not Alter the Authorized Sale of the Cartridges.

It is undisputed that all sales by Lexmark were authorized sales. Both district courts to review Lexmark's infringement allegations so concluded, regardless of whether the sales were made to resellers or end-customers. *Ink Techs.*, 2014 U.S. Dist. LEXIS 41045, at *22; *Static Control*, 615 F. Supp. 2d at 585. Lexmark did not appeal that finding as clearly erroneous, and the Federal Circuit accepted the finding.

But a "notice" by itself has no legal effect, until and unless it creates a contractual obligation. Under Supreme Court precedent, an enforceable restriction on the right to sell took the form of a legal agreement between parties, such as a license agreement from the patentee to a manufacturer. *See Gen. Talking Pictures.* But here, the Federal Circuit only required that the "notice" to the user be "clearly communicated," without explanation or analysis of whether or how such a "notice" could be legally enforceable against a purchaser. *Impression Products*, 816 F.3d at 726.

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[19] *See, Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337 (Fed. Cir. 1999); *Bandag Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903 (Fed. Cir. 1984).

Indeed, the opinion does not even state the terms of the notice that purportedly restricts the purchaser's rights. And, it incorrectly presumes that any use restrictions must constrain the rights of an end consumer when the first sale was to a retailer.

The Federal Circuit ignored key questions crucial to this or any case attempting to restrict the scope of patent exhaustion: *how* is a contractual relationship created; between *whom*; *when*; and *what terms* govern that relationship. Had the court addressed these questions, it necessarily would have concluded that any "notice" could not restore patent rights exhausted upon the first sale, and at most restricted post-sale usage rights under contract law.

First, Lexmark's authorized sale occurs before purchasers can accept any use restrictions.[20] By its terms, a new "agreement" comes into existence only *after* the sale is complete: "*Opening this package or using the patented cartridge inside* confirms your acceptance of the following license agreement." Joint Appendix ("JA") 88-89 (emphasis added). Purchasers pay for and own full title to a cartridge before the box is opened or the cartridge is installed.[21] Thus,

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[20] Sales of Lexmark Prebate cartridges were unconditional. Anyone could walk into a store carrying Lexmark Prebate cartridges and purchase one. Anyone could purchase Lexmark Prebate cartridges directly from Lexmark through its website. *No potential buyer was required to agree to abide by the Prebate terms before purchasing a cartridge.*

Static Control, 615 F. Supp. 2d at 585, (emphasis added).

[21] Ohio Rev. Code § 1302-42 (2012). End-users obtained full title to the cartridge from Lexmark or resellers. The terms purport only

consumers cannot accept Lexmark's post-sale condition, and a binding contract is not formed, until *after* the authorized sale has occurred. Moreover, the first sale to resellers is free of any restriction, since they neither open the boxes nor use the cartridge, and the cartridge passes, post-exhaustion, to the end user.

Second, Lexmark's terms affect only *post-sale use* and do not restrict the initial authority to *sell*. They purport to limit only what the end-user can do with a used cartridge; specifically, that a consumer wishing to recycle a used cartridge should return it to Lexmark.[22]

Thus, Lexmark's terms did not limit the authority to sell, as in *Gen. Talking Pictures*. Each authorized sale was completed, and full title passed to the cartridge purchaser, before the "notice" had any legal effect. Any contract created by the Return program terms, like the notices in *Bizcom* or *Mallinckrodt*, came into being after the authorized sale, and therefore after Lexmark's patent rights already were exhausted. The terms therefore are unenforceable under patent law.

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to restrict recycling of spent cartridges: "Under the Prebate program, customers have three options for their empty cartridges: keep them, throw them in the trash, or return them to Lexmark." *Static Control*, 487 F. Supp. 2d 861, 871 (E.D. Ky. 2007).

[22] JA 88 ("RETURN EMPTY CARTRIDGE TO LEXMARK FOR RECYCLING. ... Following this initial use, you agree to return the empty cartridge only to Lexmark for recycling"). *Compare Static Control v. Lexmark Int'l, Inc.*, 697 F.3d 387, 396 (6th Cir. 2012); *Static Control*, 615 F. Supp. 2d at 577 n.3. Under the current narrowed scope of the Return terms, remanufacturing would not be infringement even under Lexmark's theory.

II. PROPER INTERPRETATION OF THE EXHAUSTION DOCTRINE MAINTAINS SUPREME COURT PRECEDENTS DISTINGUISHING REPAIR FROM RECONSTRUCTION.

The aftermarket competitors represented by the *amici* engage in lawful repair, and provide consumers with high quality products and services at competitive prices. Inherent in the district court's conclusion of noninfringing exhaustion in this case is that the defendants engage in lawful repair. *Static Control* explicitly held that remanufacture of used Lexmark cartridges constituted lawful repair, not infringing reconstruction—a holding Lexmark did not appeal.[23]

Moreover, the marketplace favors the quality and availability of replacement cartridges. Acquisition guidelines of federal agencies, state and municipal governments, and corporations express preferences for purchase of refurbished and recycled products.[24] In all likelihood, the printers used by this Court run on remanufactured toner cartridges such as those produced by members of the *amici*.

The doctrine of noninfringing repair is nearly as old as the American industrial revolution. "Since [1850], it has been the established law that a patentee has not 'a more equitable right to force the disuse of the machine entirely, on account of the inoperativeness of a part of

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[23] *Id.*, 615 F. Supp. 2d at 588. *See also*, *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445 (Fed. Cir. 1997), *cert. denied*, 523 U.S. 1022 (1998) (modifying ink jet cartridges for resale constitutes repair).

[24] *See* 40 C.F.R. § 247.16 (2017).

it, than the purchaser has to repair, who has, in the whole of it, a right of use.'"[25] Permissible repair has been found in a broad range of commercial products and services.[26] This distinction protects the patent owner against only those who re-make the invention anew,[27] while promoting the paramount public interest in commerce pertaining to patented goods.

A. The Federal Circuit's Crabbed View of the Patent Exhaustion Doctrine Thwarts the Public's Right to Repair.

The thousands of businesses that customize and repair products and supply replacement parts,

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[25] *Heyer v. Duplicator Mfg. Co.*, 263 U.S. 100, 101 (1923) (machine owner could buy replacement bands other than from patent owner), citing *Wilson v. Simpson*, 50 U.S. (9 How.) 109, 123 (1850) (owner of a patented planing machine could replace worn-out cutting blades).

[26] Automobiles: *Aro Mfg Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961) (Justice Black, concurring) (replacement convertible tops); *Dana Corp. v. Am. Precision Co., Inc.*, 827 F.2d 755 (Fed. Cir. 1987) (rebuilt automobile clutches).

Surfboards: *Surfco Hawaii v. Fin Control Sys. Pty. Ltd.*, 264 F.3d 1062 (Fed. Cir. 2001), *cert. denied sub nom. Fin Control Sys. Pty. Ltd. v. Surfco Hawaii*, 536 U.S. 939 (June 24, 2002) (replacement fins).

Medical Devices: *Kendall Co. v. Progressive Med. Tech.*, 85 F.3d 1570, 1576 (Fed. Cir. 1996) (replacing unspent parts).

Injection Molding Machinery: *Husky Injection Molding Sys. v. R&D Tool & Eng'g*, 291 F.3d 780 (Fed. Cir. 2002).

Kitchen: *Bottom Line Mgt., Inc. v. Pan Man, Inc.*, 228 F.3d 1352, 1355 (Fed. Cir. 2000) (resurfacing cooking plates).

Disposable Cameras: *Jazz Photo Corp*, 264 F.3d at 1098-99 (Fed. Cir. 2001) (approving eight-step repair process).

[27] *See Wilbur-Ellis Co. v. Kuther*, 377 U.S. 422, 424 (1964).

including those represented by *amici*, provide vital services to the domestic economy. Automotive parts businesses commonly repair hundreds of reusable parts (*e.g.*, transmissions, alternators, brakes, clutches, and controlled velocity joints), and repair shops customize and upgrade car engines using aftermarket parts. Suppliers in the imaging industry repair toner and ink-jet cartridges for business and home office use with specialized mechanical parts and computer chips that regulate and upgrade printing operations. Consumers upgrade computers by adding storage, memory, and graphics processing and gaming boards. Consumers benefit from this competition through lower prices, higher quality, and competitive features.

But these businesses need bright-line rules to avoid the "disastrous or even lethal consequences" of patent infringement suits:

> [B]usinessmen are certainly entitled to know when they are committing an infringement.... But to what avail these congressional precautions if this Court, by its opinions, would subject small businessmen to the devastating uncertainties of nebulous and permissive standards of infringement under which courts could impose treble damages upon them....[28]

The patent exhaustion doctrine preserves the right to repair against unlawful anticompetitive restraints. The "conditional sales" doctrine trammels the rights of

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[28] *Aro*, 365 U.S. at 358-359 (Black, J., concurring). *Cf. Kirtsaeng*, 133 S. Ct. at 1365 (geographical limits on exhaustion could subject retailers to "the disruptive impact of the threat of infringement suits.).

a patentee's competitors and the public to repair patented articles and replace unpatented components. Preserving the right to repair provides another reason to give *Quanta* its full effect, by overruling *Mallinckrodt*.

B. "Conditional Sales" Cases Create Uncertainty in the Courts and the Marketplace, a Trend This Court Should Reverse.

Predictably,[29] the sea change worked by *Mallinckrodt* spawned more intrusive efforts by patent owners to stymie aftermarket competition. *Quanta* should have laid those concerns to rest. But Lexmark and others continue to argue *Mallinckrodt* as justification for patent-based intrusions on lawful repair, to the detriment of consumers and competition.[30]

Post-sale use restrictions like Lexmark's block the wheels of commerce. Although repair and supplies businesses can read patents to evaluate whether their activities constitute repair and not reconstruction, they cannot know whether products and components are subject to post-sale restrictions. As this Court's decisions illustrate, even where articles are marked

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[29] *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 190 (1980), describing the rapid adoption of conditional licensing, and the ensuing corrosive effects on commerce arising from *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912) – a result soon reversed by *Motion Picture Co. v. Universal Film Co.*, 243 U.S. 502, 515 (1917).

[30] *See also, Keurig*, 732 F.3d at 1374 (describing attempted restriction on use of competing coffee cartridges as an "end-run around exhaustion").

with a restrictive legend nearly identical to the notice in *Mallinckrodt*, the mere existence of such a "notice" does not make it *per se* valid or enforceable.[31] Regardless of whether consumers and aftermarket competitors actually see purported post-sale restrictions, they cannot know whether or how those terms affect their right under patent law to repair devices they lawfully own. Yet, the "conditional sales" cases would subject these consumers and businesses to liability for patent infringement.

Attempts to impose patent-based post-sale use restrictions should be considered null and void, and in certain cases could be patent misuse.[32] But until the law is fully settled, those who supply and repair products with replaceable parts will unjustly be subjected to threats of infringement litigation, and consumers will bear the costs of this market confusion sown by the patent owner.

Aftermarket competitors need a bright-line test for exhaustion to stimulate investment and promote lawful commerce. Suppliers and servicers—including many

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[31] *See, e.g., Kendall Co.*, 85 F.3d at 1575 (finding permissible repair by replacing with aftermarket parts a pressure sleeve sold in packaging marked "FOR SINGLE PATIENT USE ONLY"); *Sage Prods. Inc. v. Devon Indus. Inc.*, 45 F.3d 1575, 1578 (Fed. Cir. 1995) (finding repair by aftermarket replacement of used containers marked "single use only").

[32] *Cf. Omega, S.A. v. Costco Wholesale Corp.*, 2011 WL 8492716 (E.D. Cal. Nov. 9, 2011) (Order and J.), *aff'd* No. 11-57137 (9th Cir. Jan. 20, 2015) (granting summary judgment, on remand of case involving copyright first sale doctrine, that plaintiff committed copyright misuse by engraving a copyrighted image on the reverse of a watch solely to enforce against unauthorized importation).

small, family-owned enterprises—can readily evaluate their business plans under familiar principles of contract law. But if they cannot reasonably assess their risks under patent law, then the threat of patent litigation, increased damages, attorney fee awards, and injunctions will stifle investment and chill competition. *Quanta*'s clear test enables business owners to compete in repair and customization aftermarkets with confidence. Rejection of the "conditional sales" theory will provide needed certainty to aftermarket repair industries, promote consumer benefit and competition, and reduce the risk of unwarranted patent infringement litigation–without depriving patent owners of benefits earned from an authorized sale.

III. AN AUTHORIZED SALE, WHEREVER MADE, EXHAUSTS ALL PATENT RIGHTS IN THE VENDED ARTICLE.

A. Patent Exhaustion is a Matter of Common Law, Which Has No Geographic Restrictions.

The exhaustion doctrine traces its roots back nearly 400 years, to the time of Lord Coke and "the common law's refusal to permit restraints on alienation of chattels."[33] *Kirtsaeng* applied this common-law exhaustion principle to copies of copyrighted works, and affirmed that a straightforward application of the doctrine encompasses sales of copies made abroad. *Id.*, 133 S. Ct. at 1363-1364. The exhaustion doctrine promotes competition and consumer rights, "leaving

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[33] *Kirtsaeng*, 133 S. Ct. at 1363 (exhaustion at common law has "an impeccable historic pedigree"); *LifeScan Scotland, Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1376 (Fed. Cir. 2013).

buyers of goods free to compete with each other when reselling or otherwise disposing of those goods." *Id.*, 133 S. Ct. at 1363. Moreover, exhaustion frees commercial enterprise and the courts from the impossible burdens of determining and enforcing restrictions upon goods whose provenance cannot readily be traced. *Id.*, 133 S. Ct. at 1363, 1365.

Kirtsaeng's reasoning applies with greater force to patent exhaustion, for three reasons. *First*, although the Copyright Act has codified the first sale exemption from infringement liability,[34] patent law has no statutory exhaustion provision and exists solely as a creature of common law.[35] Thus, the scope of exhaustion under patent law must be coextensive with common law exhaustion which, as *Kirtsaeng* confirms, "makes no geographic distinctions." *Id.*, 133 S. Ct. at 1363. *Second*, whatever other differences exist between patent and copyright, for more than 100 years the Supreme Court has recognized no distinction between the rights implicated by exhaustion of copyright or patent law.

> Congress had no intention to use the term 'vend' in one sense in the patent act and 'vending' in another in the copyright law. Protection in the exclusive right to sell is aimed at in both instances, and the terms used in the statutes are to all intents the same.

Bauer & Cie. v. O'Donnell, 229 U.S. 1, 13 (1913). Consequently, the scope of exhaustion following

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[34] 17 U.S.C. § 109(a).

[35] *Helferich Patent Licensing, Inc. v. The New York Times Co.*, 778 F.3d 1293, 1305 (Fed. Cir. 2015).

authorized sale of a patented article or exemption from the respective rights of a patent and copyright owner to control distribution is "to all intents the same." *Third*, by citing *Bobbs-Merrill v. Straus*,[36] the *Kirtsaeng* Court further confirmed the applicability and equivalence of exhaustion in the patent and copyright contexts. The Court consistently has cited the same exhaustion principles animating *Bobbs-Merrill* when invalidating attempts to justify post-sale price restraints under patent law. *See, United States v. General Elec. Co.*, 272 U.S. 476, 493-494 (1926) (characterizing invalidation of resale price restrictions in patent cases and *Bobbs-Merrill* as applications of exhaustion principles of *Adams v. Burke*); *Boston Store of Chicago v. Am. Graphophone Co.*, 246 U.S. 8, 21-23 (1918) (discussing *Bobbs-Merrill* and the equivalence of copyright and patent exhaustion in *Bauer*).

B. Neither *Impression Products* Nor *Jazz Photo* Has Any Basis in Supreme Court Precedent.

The Federal Circuit's international exhaustion decisions in *Impression Products* and *Jazz Photo* have no mooring in Supreme Court precedent, and their reliance on *Boesch v. Graff*[37] is inapposite. There, a German manufacturer possessed a prior use right under German law to make and sell the articles. The manufacturer's sales were made without any authorization of the patent owner, and consequently did not result in exhaustion. Thus, *Boesch* does not support *Jazz Photo*'s broad conclusion that "the

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[36] 210 U.S. 339 (1908).

[37] 133 U.S. 697 (1890).

authorized first sale must have occurred under the United States patent," inasmuch as the sale was not authorized by the patent owner at all. *Id.*, 264 F.3d at 1105. Similarly, *Jazz Photo*'s parenthetical following that citation erroneously presumes that a license from the U.S. patent owner would have been required even if the sale in Germany had been authorized. *Id.* At most, *Boesch* holds, consistent with Supreme Court precedents prior and since, that a sale made without the authorization of the patent owner does not exhaust the patent owner's rights. It does not support the proposition of *Jazz Photo* and its progeny that authorized foreign sales cannot exhaust domestic patent rights.

C. Neither the Uruguay Round Amendments Act Nor the TRIPS Agreement Nor Concerns for Extraterritoriality Preclude Exhaustion Upon Foreign Authorized Sales.

The Federal Circuit also cannot distinguish *Kirtsaeng* by asserting a separate statutory basis to preclude exhaustion under Section 271(a), as part of the Uruguay Round Amendments Act of 1994, 108 Stat. 4988. This argument suffers from four fatal flaws.

First, exhaustion does not apply solely to the right to exclude *sales*. Rather, an authorized sale extinguishes *all* of a patentee's rights to control use or disposition of that particular article. As the Supreme Court reaffirmed in *Quanta*, "the initial authorized sale of a patented item terminates all patent rights to that item." *Id.*, 553 U.S. at 625. "When the patented machine rightfully passes to the hands of the purchaser from the patentee, or from any other person by him

authorized to convey it, the machine is no longer within the limits of the monopoly."[38] And, as this Court recently observed, the purpose of the exhaustion doctrine is "avoiding re-imposition of section 271 constraints on an authorized acquirer... ." *Helferich*, 778 F.3d at 1305. Thus, exhaustion applies to all patent rights in the vended article. There is no basis to distinguish exhaustion of importation from other section 271 rights of use, sale, or offers to sell.

Second, Congress added the reference to importations (and offers to sell) to section 271(a) to comply with the requirements of Article 28(1)(a) of the Agreement on Trade Related Aspects of Intellectual Property Rights of 1994 (the "TRIPS" Agreement). The contemporaneously-adopted footnote to the word "importing" in TRIPS Article 28 clarifies that "this right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6." Article 6 provides, for the purposes of dispute settlement under TRIPS, "nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights." Thus, the United States and 160 other member countries of the World Trade Organization expressly agree that exhaustion of the importation right complies with TRIPS.

Third, had Congress intended by this amendment to articulate a specific position on the scope of

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[38] *Chafee v. Bos. Belting Co.*, 63 U.S. 217, 223 (1859). *See United States* v. *Univis Lens Co., Inc.*, 316 U.S. at 249 (authorized sale of an article "is a relinquishment of the patent monopoly with respect to the article sold."); *Adams v. Burke*, 84 U.S. at 456-457 (same).

exhaustion—particularly given the neutral treatment of exhaustion in TRIPS Articles 6 and 28— or to alter the contours of the exhaustion doctrine, such an important change would be reflected in the legislative history of the 1994 amendment. Yet, Congressional reports are silent on the amendment, and the Administrative Statement neither prescribes nor limits the scope of exhaustion for patented articles imported into the United States after an authorized sale. *See* Statement of Administrative Action, The Uruguay Round Agreements Act at 986 (1994), *reprinted in* 1994 U.S.C.C.A.N. 4040, 4284. This Court may "presume, from Congress's refusal to disturb the existing decisional law of this doctrine (which predated the 1952 Act by nearly a century), an implicit authorization to continue applying the doctrine within its familiar boundaries." *Helferich*, 778 F.3d at 1305. Accordingly, there is no support for an argument that the 1994 amendments were intended to, or did, work any change to common-law exhaustion.

Fourth, approval by Congress of three international trade agreements proves that international exhaustion is the rule. Congress approved three exceptions to the rule, but then took the extraordinary step of precluding any Administration from entering into future agreements that detracted from international exhaustion.[39] Thus, it can hardly be said that any of these three agreements represents the letter or policy of the Patent Act, particularly where those agreements

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[39] *See, e.g.*, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, Pub. L. No. 109-108, § 631, 119 Stat. 2290, 2344 (2005); *Fiscal Year 2006 Defense Appropriations and the Fiscal Year 2006 Science, State and Justice Appropriation Bills: Hearing Before the H. Comm. On Appropriations*, 109th Cong., 2005 WL 1350973 (June 7, 2005).

so clearly contravene the common law principles of exhaustion reinforced in *Kirtsaeng*.

Finally, exhaustion after an authorized foreign sale does not threaten extraterritorial application of domestic patent law. At issue here is whether the U.S. patent exhaustion doctrine prevents a U.S. patent holder from further asserting its rights on U.S. soil against a patented article sold abroad with the patentee's authority. Unlike *Boesch*, this case presents no question of whether rights bestowed under foreign law trump U.S. patent rights. *Id.*, 133 U.S. at 703.

Thus, Question 2 should be answered that an authorized sale anywhere in the world exhausts the rights of a U.S. patent owner. *Jazz Photo* should be overruled.

IV. THIS COURT SHOULD CLARIFY THE SCOPE OF EXHAUSTION TO PREVENT THE CONTINUING ILL EFFECTS OF *MALLINCKRODT*, *JAZZ PHOTO*, AND *IMPRESSION PRODUCTS*.

Amici dispute a further presumption in the Federal Circuit opinion—that, despite some 15 amicus briefs to the contrary, limiting the scope of patent exhaustion would inflict none of the types of commercial harms that so concerned the Court in *Kirtsaeng*. *Impression Products*, 816 F.3d at 752. As described below, Lexmark's conduct already has inflicted that very type of commercial injury on the imaging products aftermarket—stifling remanufacture of spent printer cartridges, and increasing consumer costs through supracompetitive pricing. And, its reverberations

already are being felt in the market for automotive parts and service.

If other printer manufacturers follow the *Impression Products* roadmap, an independent imaging industry would cease to exist, and consumers would pay tens of billions of dollars more for cartridges that are no better than independently remanufactured alternatives. If these types of restraints were adopted by the automotive industry, the impact on competition for parts and service, and on prices paid by consumers, would reach into the hundreds of billions of dollars.

A. The Aftermarket Industries Represented by Amici Contribute Hundreds of Billions of Dollars Annually to American Commerce.

1. Aftermarket competition contributes substantially to the American economy.[40] More than 150,000 independent businesses in the United States participate in the market for automotive vehicle equipment, parts and service, providing employment to more than 4.3 million workers. In 2015, nearly $341 billion was spent on motor vehicle repair and maintenance in the United States, or more than 1.9% of gross domestic product. Following expiration of a new car warranty, over 70% of car owners who patronize auto repair shops relied on independent repair shops over new car dealers. Approximately 20% of American consumers bought automotive parts and

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[40] *See, Eastman Kodak Co. v. Image Technical Servs. Co.*, 504 U.S. 451, 462 & n.6 (1992). *See also, Aro Mfg Co. v. Convertible Top Replacement Co.*, 365 U.S. at 357-358 (Justice Black, concurring).

products to maintain, repair, and customize their own vehicles.

The right to repair motor vehicles has attained greater importance over the last decade. A steady trend shows American consumers and businesses keep their cars and trucks in service longer. On average, new car buyers in 2015 own their vehicles for 6.5 years, and used car buyers keep those cars on the road for 5.3 more years–nearly 12 years—and more than 4 years longer than the average in 2006.[41] As cars advance in age, so does the need for consumers and businesses to repair and replace vehicle parts. Studies confirm consumers prefer to obtain parts and service from independent businesses rather than dealerships—benefitting from reduced costs, greater convenience, and higher consumer satisfaction from local repair shops and neighborhood mechanics.[42]

An estimated 2,000 domestic businesses employ some 50,000 people in the United States to recondition and repair office imaging supplies. In 2015, consumers spent more than $15 billion for repair and maintenance of electronic and precision equipment, approximately $5 billion of which was attributable to computer and

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[41] News Release, IHS, *Average Age of Light Vehicles in the U.S. Rises Slightly in 2015 to 11.5 years*, July 29, 2015, http://press.ihs.com/press-release/automotive/ average-age-light-vehicles-us-rises-slightly-2015-115-years-ihs-reports; Phil LeBeau, *Americans holding onto their cars longer than ever*, CNBC, July 29, 2015, www.cnbc.com/2015/07/28/americans-holding-onto-their-cars-longer-than-ever.html.

[42] *Independent vs. dealer shops for car repair*, Consumer Reports, Jan. 22, 2015, www.consumerreports.org/cro/magazine/2015/03/ best-places-to-get-your-car-repaired/ index.htm.

office machine repair and maintenance.[43] Approximately 30% of toner and ink-jet cartridges sold last year were aftermarket products, at a price approximately 50-60% less than new OEM cartridges.[44]

2. Reuse and repair promote sound environmental policies, and conserve resources such as precious metals and petroleum-based plastics. Rebuilding automotive parts typically re-uses 88% of the raw material from the original parts. Rebuilding engines saves 50% of the energy required to produce a new engine. I-ITC estimates reconditioning ink and toner cartridges will keep some 84,000 tons of industrial-grade plastics and metals out of landfills this year. Every remanufactured cartridge saves an estimated 3-4 quarts of oil.[45]

Following expiration of a new car warranty, over 70% of car owners who patronize auto repair shops relied on independent repair shops over new car dealers. Acquisition guidelines of federal agencies, state and municipal governments, and corporations give preference to purchasing refurbished and recycled

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[43] U. S. Census Bureau, 2015 Annual Services Report, Table 2: Estimated Revenue by Tax Status for Employer Firms: 2007 through 2015, supra, note 3, at 2.

[44] *Compare, e.g.,* www.staples.com/Lexmark-T650H11A-Black-Return-Program-Toner-Cartridge-High-Yield/product_760469 ($496.99 new) *with* www.amazon.com/Print-Save-Repeat-Lexmark-T650H11A-Remanufactured-Cartridge/dp/ B004YUDM5M ($168.95 remanufactured).

[45] *See* Clover Technologies, 2014 Sustainability Report at 9 (estimating savings of 7,177 barrels of oil fromcollecting nearly 23 million cartridges), www.clovertech.com/flashpages/sustainability_report/#p=9.

products such as those produced by members of the amici.

B. The Decision Should be Reversed, Otherwise Patent Owners Will Continue to Exploit Uncertainty Over the Scope of Patent Exhaustion to Quash Aftermarket Competition.

This case addresses the two most pressing issues of patent exhaustion for aftermarket competition: whether the aftermarket can be shut down by a mere four words—"for single use only"; and whether a U.S. patent holder can foreclose aftermarket competition merely by moving more manufacturing jobs offshore. Both have been front-burner issues for the imaging supplies industry for the nearly 20 years since Lexmark instituted its "Return" or "prebate" program.[46] If restrictive legends have not yet taken root in other industries, it is primarily because their legality has been challenged in the market and in the courts by companies like Static Control—and because, to date, decisions on this key issue have largely favored the aftermarket industry. The geographic scope of patent exhaustion has become an equally open question since this Court's *Kirtsaeng* decision.

Currently, Lexmark stands alone among major printer manufacturers in its attempts to leverage

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[46] Amici note that Lexmark filed its complaint against Static Control, first raising issues relating to patent exhaustion and "prebate," in December 2002. Another early case did not seek to reverse *Mallinckrodt*, but upheld the Lexmark label as a valid contract under California unfair competition and false advertising law. *Arizona Cartridge Remanufacturers Ass'n v. Lexmark Int'l Inc.*, 421 F.3d 981, 987 (9th Cir. 2005).

Mallinckrodt and *Jazz Photo* against competition from independent remanufacturers. Regrettably, its efforts have succeeded. Independent aftermarket companies estimate they remanufacture as much as 90-95% of the remanufactured laser printer cartridges of leading printer brands such as HP. As a result of that competition, prices for new HP cartridges fell. For Lexmark cartridges, the number is far smaller—by some estimates, a scant 5-10%—and Lexmark's prices have increased.[47]

Prior to *Impression Products*, independent remanufacturing of Lexmark cartridges was on the rise. The district courts in *Static Control* and *Impression Products* held, on the first question presented, that *Quanta* had reversed the Federal Circuit-made "conditional sales" doctrine of *Mallinckrodt*, and that Lexmark's post-sale restrictions could not be enforced against third party remanufacturers under patent law.[48] As a result, the industry had greater confidence that remanufacture of Lexmark cartridges sold domestically did not infringe Lexmark's patents.

Whatever uneasy peace previously existed between OEMs and remanufacturing interests has ended with *Impression Products*. *Impression Products* has upended industry expectations, and exacerbated

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[47] *See Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d at 396 & n.3.

[48] *Ink Techs.*; *Static Control Components v. Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575; *see Static Control v. Lexmark*, 697 F.3d at 421 (affirming finding of non-infringement and thereby declining to review exhaustion holding).

existing uncertainty over the future of independent remanufacturing for Lexmark and all OEM products.

Although printer cartridges have been the poster child for postsale restrictions on patent exhaustion, concerns for the future of remanufacturing hardly are confined to the imaging industry. Automotive OEMs assert that copyright "first sale" exhaustion does not apply to consumers who purchase their vehicles because, they claim, consumers only license rather than purchase parts embedded with software code.[49] Consequently, in the OEMs' view, parts ranging from transmissions and oxygen sensors to window motors, seat positioning, and wipers,[50] can neither be independently manufactured nor lawfully repaired by anyone other than an OEM or authorized dealership. While the OEMs have limited their attacks on the

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[49] *See, e.g.*, U.S. Copyright Office, *In the Matter of Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies*, Dkt. 2014-07, www.copyright.gov/1201/2015/reply-comments-050115/, Comments of John Deere (Mar. 27, 2015) at 5: "A vehicle owner does not acquire copyrights for software in the vehicle, and cannot properly be considered an 'owner' of the vehicle software"; *id.*, Comments of General Motors, at 10-12. The remanufacturing industry immediately understood the impact of these arguments, as did the press: *See* Mike Masnick, *GM Says That While You May Own Your Car, It Owns The Software In It, Thanks To Copyright*, Techdirt, Apr. 23, 2015, www.techdirt.com/articles/20150421/23581430744/gm-says-that-while-you-may-own-your-car-it-owns-software-it-thanks-to-copyright.shtml.

[50] *See*, Robert N. Charette, *This Car Runs on Code*, IEEE Spectrum, Feb. 1, 2009, http://spectrum.ieee.org/transportation/systems/this-car-runs-on-code. As one example, the 2015 GM sport utility vehicle platform uses some 70 modules to control physical part operations.

exhaustion doctrine to copyright first sale (and anticircumvention provisions of the Digital Millennium Copyright Act), it takes little imagination to see how these OEMs could, by merely applying a "single use only" legend, use *Impression Products* to divert the $341 billion currently earned by independent competitors back into their own pockets.

These concerns further are exacerbated by the Federal Circuit's re-imposition of geographic restrictions on exhaustion. To illustrate the flaws in the Federal Circuit's ruling, consider how the Federal Circuit's opinion eliminates patent exhaustion under the following scenarios:

- An OEM's wholly-owned foreign subsidiary assembles automobiles, and sells them to a domestic subsidiary that sells the cars to a domestic dealer, which then sells to consumers.
- An OEM's wholly-owned foreign subsidiary manufactures car parts which it sells to a domestic subsidiary, which are assembled in the United States for sale to a dealer and then to a consumer.
- OEM automobile parts made in the United States are incorporated into automobiles manufactured by the OEM in Canada.
- OEM automobile parts made in the United States are remanufactured by the OEM's subsidiary in Mexico, then re-sold by the subsidiary to an OEM-authorized repair shop in the United States.

These are not mere hypotheticals. According to figures submitted by vehicle manufacturers to the U.S. government, virtually no automobiles and light duty

trucks sold in the United States are assembled entirely from domestically-made parts, and many cars from foreign and domestic automakers are made entirely abroad and imported from plants in Canada and Mexico, as well as Europe and Asia.[51] Restricting patent exhaustion only to domestically-sold goods thus could create havoc with automotive repair.

The realities are even worse for the imaging aftermarket. Title to a toner cartridge typically may pass in several authorized sales before it reaches the end-consumer–from an OEM to one or more retailers or middleman suppliers, and then to the end-purchaser. Lexmark's contractual restriction arises only upon opening the box and inserting the cartridge, *i.e.*, after title has passed to the end-purchaser. Yet, under *Impression Products*, none of the prior authorized sales would have exhausted Lexmark's patent rights.

Moreover, cartridges returned to Lexmark for recycling or remanufacture[52] may be refilled and repaired by Lexmark in a foreign factory, slapped with another restrictive label, and placed in a new box that asserts anew revived patent rights – and sold several more times in authorized sales.

Given that a cartridge can be repaired and refilled multiple times, title may pass to any particular cartridge in 20 or more authorized sales. Yet, the

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[51] *See* National Highway Traffic Safety Administration, American Automobile Labeling Act Reports, www.nhtsa.gov/Laws+&+Regulations/Part+583+American+Automobile+Labeling+Act+(AALA)+Reports.

[52] *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1383 (2014).

Federal Circuit's opinion grants Lexmark essentially perpetual control over the life of that cartridge, and exposes any end-purchaser that gives the cartridge to another remanufacturer, and any independent remanufacturer, to potential liability for patent infringement.

The proposal of the United States fares no better in the marketplace. It is hard to conceive of any practical way in which contractual restrictions upon thousands of parts in automobiles or scores of parts in toner cartridges could reliably be passed to the consumer or a servicer. As such, the United States' proposed solution provides no safe pathway for competitors or users to avoid infringement, and no assurances that hundreds of billions of dollars of commercial transactions can proceed unimpeded by threats of liability.

Finally, *Impression Products* fails to recognize the practical impossibility for the aftermarket to know whether a particular patent owner has voluntarily acceded to patent exhaustion. Lexmark's conduct provides an object illustration of the Federal Circuit's presumptive non-exhaustion rule. Lexmark accused Static Control of active inducement and contributory patent infringement for providing components for Lexmark-manufactured cartridges under the IBM label, and sought damages and injunctive relief based on the remanufacture of spent IBM cartridges. Only years later did Static Control learn in discovery that no patent-based post-sale restrictions were asserted over

hundreds of thousands of IBM cartridges.[53] If *Impression Products* is not reversed, competitors cannot presume patent exhaustion upon an authorized sale, and the ability to repair and remanufacture may only be determined through litigation. This Court's precedents provide the only sensible rule, by deeming that patent exhaustion occurs upon an authorized sale anywhere in the world.

If the Court does not clearly reverse *Impression Products*, patent owners will become emboldened to further restrict exhaustion, and remanufacturers would be well advised to curtail their businesses so as not to become the next test case for possible certiorari to this Court. These businesses and consumers still face the Hobson's choice to either stop doing business or roll the dice in a suit for patent infringement—and face the possibility of paying enhanced damages, injunctive relief, attorney fees, and costs.

The businesses of members of the amici, and consumers of aftermarket products and services, have incurred the risks of uncertainty for too long. Amici thus urge this Court to reverse *Impression Products*, and to recalibrate the law in accordance with its established precedents defining the scope of exhaustion, permissible repair, and unfair competition.

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[53] *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 487 F. Supp. 2d 830, 854 (E.D. Ky. 2007). *See also Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d at 417.

CONCLUSION

The Federal Circuit decision in *Impression Products* should be reversed on Questions Presented 1 and 2.

Respectfully submitted,

SETH D. GREENSTEIN
Counsel of Record
CONSTANTINE CANNON LLP
1001 Pennsylvania Ave., N.W.
Suite 1300 North
Washington, D.C. 20004
(202) 204-3500
sgreenstein@constantinecannon.com

Counsel for Amici Curiae
Auto Care Association and
International Imaging Technology
Counsel

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IMPRESSION PRODUCTS, INC.
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF AMICI CURIAE BIOTECHNOLOGY INNOVATION ORGANIZATION AND CROPLIFE INTERNATIONAL IN SUPPORT OF RESPONDENT

Barbara A. Fiacco
Counsel of Record
Sarah S. Burg
Stephen T. Bychowski
FOLEY HOAG LLP
155 Seaport Boulevard
Boston, MA 02210
(617) 832-1000
bfiacco@foleyhoag.com

Counsel for Amici Curiae

February 23, 2017

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INTEREST OF AMICI CURIAE[1]

The Biotechnology Innovation Organization ("BIO") is the principal trade association representing the biotechnology industry in all fifty states and abroad. BIO has more than 1,100 members, including businesses, biotechnology centers, and academic institutions. BIO members undertake research and development of biotechnological health care, agricultural, environmental, and industrial products, including life-saving drugs. BIO's members range from Fortune 500 companies to research universities and small start-up companies. The majority of BIO's corporate members are development-stage companies that have yet to bring their first commercial product to market.

CropLife International ("CropLife") is a global federation representing the plant science industry as well as a network of regional and national associations in ninety-one countries. CropLife's member companies include BASF, Bayer CropScience, Dow AgroSciences, DuPont-Pioneer, FMC, Monsanto, Sumitomo, and Syngenta. These companies are committed to sustainable agriculture through innovative research and development in the areas of crop protection, pest control, and seed and

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[1] No counsel for a party authored this brief in whole or in part, and no monetary contribution to the preparation or submission of this brief was made by anyone other than the amici curiae or their counsel. Respondent has granted a blanket consent to the filing of amicus briefs. Petitioner's consent is being lodged with the Clerk of the Court concurrently with this brief.

plant technologies. CropLife's members develop innovative products such as seeds and plants that, unlike any found in nature, have been bioengineered or bred to have one or more novel properties. These innovations increase yields and decrease the use of pesticides, herbicides, water, and nutrients, thus benefitting the environment, farmers, and the public.

BIO and CropLife members have a substantial interest in the patent exhaustion questions before the Court in this case. They invest vast resources to develop breakthrough products that will improve public health and welfare, including novel antibody therapeutics, seeds and plants with novel traits, industrial enzymes, and advances in personalized medicine for use in the United States and abroad. To ensure broad dissemination of innovative biotechnology products, these innovator companies rely on the ability to license and price their products based on the relevant market and/or intended use—along with the corresponding ability to enforce their intellectual property rights against unauthorized use.

BIO and CropLife members have relied on longstanding patent exhaustion doctrine to structure their businesses—from investment in research and development to sales of their products and ultimately to their investment in future innovation. The current territorial application of the patent exhaustion doctrine supports this innovation cycle, for the benefit of the U.S. economy and the public. It has assured U.S. patent owners that patented products will reach consumers, patients, and farmers in the foreign markets for which these goods are intended and for which they are appropriately priced. At the same

time, the patent exhaustion doctrine prevents goods intended for foreign markets from being imported into the United States and disseminated to the domestic market through unauthorized distributors in competition with the patent owner's own domestic sales. The result is broader public access to products at prices that foreign markets can afford without undermining the patent owner's ability to accurately gauge demand for, and supply of, its patented products in the domestic market and to recoup a proportional share of its investment in that market. Likewise, the conditional sale doctrine allows the value of the patented invention to be maximized for the public good, encouraging further innovation, development, and use of the product, while allowing the patent owner to obtain a commensurate return on its investment in the invention.

SUMMARY OF ARGUMENT

The Court faces two important and wholly distinct questions directed to longstanding principles of patent exhaustion. The Federal Circuit's en banc opinion below joined by ten members of that court, reaffirmed the delicate balance struck between a patent owner's ability to protect and enforce its patent rights and the public's interest in access to patented inventions, including for improvements and further innovation. *Lexmark International, Inc. v. Impression Products*, 816 F.3d 721 (Fed. Cir. 2016).

The decision below affirming the Federal Circuit's prior holding in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), is supported by century-old Supreme

Court precedent confirming the territoriality of the U.S. patent system and furthering important public policy. Contrary to Petitioner's argument, nothing in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), counsels for a change in the territorial limitation of patent exhaustion. *Kirtsaeng* concerned interpretation of the Copyright Act and has little import for the judicially-created doctrine of patent exhaustion. Key differences between copyright law and patent law diminish *Kirtsaeng*'s applicability. Among other things, copyright law is far more uniform globally than patent law, such that U.S. patent owners face considerably more uncertainty in protecting their innovations outside the United States than do copyright holders.

The territorial limitation on patent exhaustion advances public policy and economic efficiency. It permits innovators to sell patented products internationally at locally-driven market prices. The ability to deploy regional pricing internationally encourages innovators to maximize the distribution of important biotechnology products, including life-saving therapies and innovative bioagricultural products, in developing countries. In addition, regional pricing is commercially and socially efficient: market-specific prices account for factors such as the relative value of intellectual property rights in different markets, local demand, wealth distribution, price regulation, local manufacturing requirements, compulsory licensing practices, and special imposts and tariffs.

Not only is the current exhaustion regime beneficial to the public, it also helps the U.S. economy

and creates jobs for American workers. As a matter of public policy, the current regime favors domestic exporters over importers of foreign-made products. If U.S. patent owners were to lose control of their U.S. patent rights by selling abroad, the economic incentives would favor importers of foreign goods over U.S. manufacturers. Congress has had many opportunities in recent years to review and amend the patent laws, but it has chosen not to alter the territorial limitation of this enduring doctrine of patent law. Indeed, upending this tenet would harm innovative companies and the benefits of innovation enjoyed by the public, rewarding resellers and importers who seek to profit from arbitrage.

The Federal Circuit's decision below affirming its prior holding in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) also remains good law: conditional sales of patented products do not exhaust patent rights. In *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), this Court declined to modify the Federal Circuit's holding in *Mallinckrodt*. That is not surprising. *Mallinckrodt* rests on longstanding precedent recognizing the right of a patent owner to convey only a portion of the patent right without giving away the rest. The Court should reaffirm this precedent, on which industry members have relied for decades to structure their businesses and to establish the value of rights and products they convey through licenses and sales contracts. *See Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2409-10 (2015).

Conditional sales are important to the biotechnology industry. They are an integral part of

bioagricultural and agrichemical companies' product stewardship programs. These stewardship programs impose conditions of use on products such as seed, herbicides, and insecticides that are intended to protect the health of farmers and the environment.

Conditional sales also permit buyers and sellers of a patented product to negotiate use of a portion of the patent right at a corresponding price reflecting the buyer's intended specific use. Under current law, for example, biotechnology companies have an incentive to provide patented products, subject to research-only use restrictions, at a price lower than that of a commercial-use sale in order to further basic research and innovation. If the materials are thereafter conveyed to others who lack privity with the patent owner and who use them for commercial purposes, the patent owner can invoke patent law to enjoin or to seek fair compensation for unauthorized uses beyond the scope of the conditional sale. Without the ability to attach appropriately-priced conditions to the sale of a patented product, those products could be offered only at uniform, higher prices, effectively eliminating access for limited commercial uses (e.g., veterinary use), diagnostic uses, or purely non-commercial, research uses—including by universities and other research institutions.

Mallinckrodt has stood the test of time, and BIO and CropLife members have relied on its doctrine in structuring their businesses. Petitioner's dire public policy predictions cannot be reconciled with reality: companies have thrived under the current regime for decades while the public has enjoyed

enormous benefits from the resulting innovation. Far from Petitioner's parade of horribles, restricted domestic sales benefit the industry, the public, and the U.S. economy as a whole.

BIO and CropLife members have long relied on both doctrines to plan their research and development efforts, determine market prices of their patented products, negotiate sales of those products, and reinvest for further innovation. Given the importance of these doctrines and the public policy considerations underlying them, this Court should affirm the holding below.

ARGUMENT

I. International Sales Should Not Exhaust Patent Rights.

A. This Court should not alter over a century of precedent recognizing the territorial limits of U.S. patent law.

For over 150 years, this Court has held that our patent laws "do not, and were not intended to, operate beyond the limits of the United States." *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1857); *see also Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007) ("It is the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country."); *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) ("Our patent system makes no claim to extraterritorial effect."). This territoriality principle is a pillar of U.S. patent law.

The Federal Circuit's decision below rests on more than a century of Supreme Court precedent, including *Boesch v. Graff*, 133 U.S. 697, 701-3 (1890). *Lexmark*, 816 F.3d at 763-65. In *Boesch*, a third party made and sold certain patented burners in Germany, and was permitted to do so under German law because he had made preparations to manufacture the burners prior to the application for the German patent. 133 U.S. at 701. This Court held that "a dealer residing in the United States" could not purchase the patented products from the third party residing in Germany and "import them to and sell them in the United States, without the license or consent of the owners of the United States patent." *Id.* at 702. In reaching this conclusion, the Court explained that although the sale might be authorized under German law, it did not permit "defiance of the rights of patentees under a United States patent." *Id.* at 703.

Five years after deciding *Boesch*, this Court recognized and affirmed its core exhaustion holding: domestic sales of patented products "cannot be controlled by foreign laws," and there can be no exhaustion where "neither the patentee or any assignee had ever received any royalty or given any license to use the patented article in any part of the United States." *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 664-66 (1895).

In connection with their investment in research and development to bring new products to market, BIO and CropLife members, as owners of U.S. patents, have long relied on the settled

expectation that they would not lose their U.S. patent rights simply by virtue of having made a sale abroad.

B. The *Kirtsaeng* exhaustion holding is limited to copyright law.

Nothing in this Court's analysis of the Copyright Act in *Kirtsaeng* upset the judicially-created doctrine governing international patent exhaustion. *Kirtsaeng* interprets only the statutory language that appears in the Copyright Act's first-sale provision. In this provision, 17 U.S.C. § 109(a), Congress expressly permitted "the owner of a particular copy or phonorecord lawfully made under this title ... without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." The critical question in *Kirtsaeng* was whether the scope of section 109(a) was limited geographically; in other words, whether section 109(a) conferred rights on the owner of a copy only if that copy was manufactured in the United States or regardless of where it was manufactured, so long as the copy was made with the permission of the copyright owner. 133 S. Ct. at 1355. To conclude that the Copyright Act's first-sale provision was not limited to a first domestic sale, the Court closely examined the statutory language and history of section 109(a). Given its focus on the language of the Copyright Act, the *Kirtsaeng* analysis has no application here. There simply is no counterpart to section 109(a) in the patent laws. Title 35 does not confer rights on the purchaser of a patented article; it only confers upon the patent owner the right to exclude others from making, using, selling or importing the patented invention. 35 U.S.C. § 271(a).

Moreover, this Court has long recognized that patent law and copyright law are fundamentally distinct. As explained in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), when the Supreme Court first applied the first-sale doctrine in the copyright context, "there are differences between the patent and copyright statutes in the extent of the protection granted by them." *Id.* at 345. "Unlike a patent, a copyright gives no exclusive right to the art disclosed; protection is given only to the expression of the idea—not the idea itself." *Mazer v. Stein*, 347 U.S. 201, 217 (1954). Because patent law protects a patented invention however it is embodied, it makes sense that this Court did not make any reference to patent law in *Kirtsaeng*, nor did it even suggest that its interpretation of the Copyright Act could apply more broadly to patents. Indeed, the policy concerns analyzed by the *Kirtsaeng* Court were challenges particular to copyright law faced by museums, libraries, and book retailers. 133 S. Ct. at 1364-67.

By contrast, the courts—not Congress—created and defined the patent exhaustion doctrine. *E.g.*, *Helferich Patent Licensing, LLC v. N.Y. Times Co.*, 778 F.3d 1293, 1305 (Fed. Cir. 2015) ("Patent exhaustion is a judicially fashioned doctrine without a specific source in congressionally enacted text stating the terms of this limitation on patent rights."). Congress recently implemented far-reaching changes to the patent laws through the Leahy-Smith America Invents Act. In so doing, Congress could have altered the judicially-created patent exhaustion doctrine by codifying a patent provision parallel to section 109(a) of the Copyright Act. It did not.

Eliminating the territorial limitation on patent exhaustion would be a very significant U.S. policy change—much more so than the *Kirtsaeng* decision—because copyright law is far more uniform globally than patent law. Under the Berne Convention for the Protection of Literary and Artistic Works, international copyright protection is nearly automatic for copyrighted subject matter. Works originating in other member countries must be given the same treatment as those works by their nationals. Art. 3-4, Sept. 9, 1886, *as revised at Paris* July 24, 1971 *and as amended* Sept. 28, 1979, 102 Stat. 2853, 1161 U.N.T.S. 3. By contrast, there is considerably less global uniformity in international patent laws, and therefore much greater risk to U.S. innovators, as the Federal Circuit below recognized in *Lexmark*. 816 F.3d at 765 (stating that "foreign markets are not the predictable equivalent of the American markets in which the U.S. patentee is given a right to exclude and the rewards from that exclusivity."). Under the Paris Convention for the Protection of Industrial Property, patents granted in different territories for the same invention are independent of one another. Art. 4bis, Mar. 4, 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305. Indeed, a single patent application filed under the Patent Cooperation Treaty ("PCT") can result in different, independently-granted patents in up to 151 PCT member countries—with varying scope of patent protection. In view of the lack of reciprocity among signatory countries, this Court should not unilaterally discard the long-established U.S. doctrine with respect to international patent exhaustion.

As the en banc Federal Circuit correctly recognized below, it is particularly important to recognize the territorial nature of U.S. patent laws, as compared to copyright laws, because patent laws vary significantly from country to country. *Lexmark*, 816 F.3d at 765 ("Patent law is especially territorial, and laws vary considerably from country to country."). In other words, patent protection for a given product likely varies by country in terms of scope, term, and enforceability. For this reason, Petitioner's argument that the current regime somehow enables patent owners to obtain "multiple rewards" for the same product (once for a foreign sale, and again upon importation into the United States) is wrong. Pet'r Br. at 13-15.

C. Territorial limitations on patent exhaustion facilitate regional pricing and benefit the public.

Patent owners, including BIO and CropLife members, have relied on the territorial limit on patent exhaustion when establishing their presence, cost structure, distribution network, and pricing in international markets. Territorial limits on exhaustion allow patent owners to determine efficient prices in individual countries based on the local demand, income, and need, thereby maximizing the reach of life-saving biomedical and agricultural products, especially in developing countries. Foreign markets often differ significantly from the United States with respect to the availability, scope, and enforceability of patent rights for biotechnology inventions. As a result, a patent in a foreign country based on the same underlying disclosure may be

worth much less than a U.S. patent, or a patent may not be available at all.

If the foreign sale were to trigger patent exhaustion in the United States, then the price of the patented good abroad would have to reflect the value of U.S. patent rights that would be conveyed with the foreign sale. This proposition is not only illogical, but also unfair to foreign consumers (who would object to paying for rights they do not need or want) and to patent owners (who realistically may not be able to command such a price in the foreign market). Regional pricing encourages companies to make the large and risky investments needed to develop new pharmacological, agricultural, and medical products by permitting optimal market penetration and a reasonable return on investment. The public, in turn, benefits from the development and availability of these life-changing products.

1. The current exhaustion regime permits patent owners to use regional pricing thereby benefiting the public.

The territorial limitation on patent exhaustion allows patent owners to establish regional prices based on local conditions and reach customers who could not or would not purchase the products at a higher price. *See* Jacob Arfwedson, *Re-Importation (Parallel Trade) in Pharmaceuticals*, Inst. for Policy Innovation: Policy Report 182, at 3 (July 2004). For example, in 2000, BIO member GlaxoSmithKline ("GSK") reduced the price of its AIDS drug Combivir to $3/day in developing counties, even though the

drug costs $11/day in Canada and $25/day in the United States. Scott Gottlieb, *Companies reduce prices for HIV drugs in developing countries*, 78 Bull. World Health Org. 862, 862 (2000). Three years later, GSK again reduced the price to 90 cents/day. Reed Abelson, *Glaxo Will Further Cut Prices of AIDS Drugs to Poor Nations*, N.Y. Times, Apr. 28, 2003.

Regional pricing encourages BIO and CropLife members to invest in research and development of new innovative products by permitting optimal market penetration and pricing, helping them to recoup their investment. *See* Arfwedson, *supra*, at 3. The biotechnology industry faces surging research and development costs. It takes an average of 15 years and $2.6 billion to develop and bring a new biological medicine to market. *See Drug Development Costs Rise Dramatically, Now Nearly $2.6 Billion Medicine*, Biotechnology Indus. Org. (Nov. 18, 2014), https://www.bio.org/media/press-release/drug-development-costs-rise-dramatically-now-nearly-26-billion-medicine. These costs have more than doubled in the past fifteen years. *Id.* A new plant biotechnology trait introduced between 2008 and 2012 cost approximately $136 million to develop and took 13.1 years to launch commercially. Phillips McDougall, *The cost and time involved in the discovery, development and authorisation of a new plant biotechnology derived trait* (Sept. 2011), https://croplife.org/wp-content/uploads/2014/04/Getting-a-Biotech-Crop-to-Market-Phillips-McDougall-Study.pdf. In short, such innovation is an expensive, high-risk endeavor. Regional pricing gives companies greater confidence that their initial investments will be recouped when a product finally

reaches consumers. *See* Kyle Poplin, *How Price Discrimination is Good for Global Health*, NextBillion (Sept. 17, 2014), http://nextbillion.net/blogpost.aspx?blogid=4069.

Regional pricing also permits BIO and CropLife members to respond to public health needs in economically-depressed regions by providing life-saving medicine and medical technology at or close to cost, while preserving the ability to assert patent rights against third parties who attempt to resell the low-cost products in other countries. Out of 36.7 million people living with HIV worldwide, over 50% live in sub-Saharan Africa. *UNAIDS Fact Sheet*, UNAIDS (Dec. 1, 2016), http://www.unaids.org/sites/default/files/media_asset/UNAIDS_FactSheet_en.pdf. The majority receive antiretroviral treatment. *Id.* The pharmaceutical industry has made lifesaving medications available at deeply discounted prices based on each country's ability to pay. *See generally* Colleen V. Chien, *HIV/AIDS Drugs for Sub-Saharan Africa: How Do Brand and Generic Supply Compare?* 3 PLOS One 1 (2007). The resulting increase in access to antiretroviral treatment has prevented at least 7 million new HIV infections between 1995 and 2015 and averted at least 9 million AIDS deaths. *See, e.g.*, President's Emergency Plan For AIDS Relief, *Congressional Budget Justification Supplement*, PEPFAR.gov (2016), https://www.pepfar.gov/documents/organization/241600.pdf.

Many BIO and CropLife members engage in such "equitable pricing strategies." For example, Johnson & Johnson's Global Access & Partnerships Program provides many of its products to developing

countries through low, not-for-profit pricing. *See Pricing Strategies & Programs*, Johnson & Johnson, http://www.jnj.com/caring/citizenship-sustainability/strategic-framework/pricing-strategies-and-programs (last visited Feb. 7, 2017). Other members employ similar equitable not-for-profit pricing. *See 2016 Access to Medicine Overall Ranking*, Access to Medicine Index, http://accesstomedicineindex.org/overall-ranking/ (last visited Feb. 22, 2017) (listing BIO members AbbVie, Novo Nordisk, and Johnson & Johnson among top ten leading companies practicing equitable pricing).

The ability to enforce regional pricing through patent law has special significance in the biotechnology industry which, by the very nature of its products, cannot design a product operable only in a given country or region. By contrast, the high-tech industry can more easily manufacture products for specific geographic markets. For example, companies make mobile phones that operate only in Europe, deterring resale in the United States. *See* Andy Boxal, *Samsung region-locks its Galaxy smartphones*, Digital Trends (Sept. 27, 2013), http://www.digitaltrends.com/mobile/samsung-region-locked-galaxy-smartphones/. Similarly, software routinely can be designed to operate only in specific countries. *See* Ryan Vinelli, *Bringing Down the Walls: How Technology Is Being Used to Thwart Parallel Importers Amid the International Confusion Concerning Exhaustion of Rights*, 17 Cardozo J. of Int'l & Comp. Law 102, 104 (2009). Because biotechnology companies are unlikely to be able to alter therapeutic medicines or seeds with novel traits

to limit their utility to particular markets, patent law is critical to enable effective regional pricing.

2. Eliminating the territorial limits on patent exhaustion would have negative consequences especially for less affluent foreign markets.

If this Court were to upend the current exhaustion regime, it would jeopardize the benefits of regional pricing by enabling arbitrage and the diversion of patented products from less-affluent markets into the United States. Any benefits to U.S. consumers would likely accrue at the expense of poorer consumers elsewhere. "[T]he consensus among scholars of IP law and economics is that a U.S. rule of international patent exhaustion would lead to higher prices for patented products in lower-income countries...." Daniel J. Hemel & Lisa Larrimore Ouellette, *Trade and Tradeoffs: The Case of International Patent Exhaustion*, 116 Colum. Law Rev. 17, 26 (2016).[2] Indeed, the Court in *Kirtsaeng* observed that imposing international exhaustion would "make it difficult, perhaps impossible" to sell products at different prices in different countries. 133 S. Ct. at 1370.

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[2] Even Amicus Curiae Public Citizen acknowledges that international patent exhaustion would trigger the need for extensive, complicated, and nuanced remedial legislation, and the enforcement of case-by-case import and export controls to avoid detrimental effects on patients in the developing world. Br. of Amicus Curiae Public Citizen, Inc. at 12-13.

Overturning *Jazz Photo* would also make it more difficult for companies to engage in non-price-related programs in developing countries designed to increase patient access, such as non-assert agreements with generic drug makers. Through these agreements, companies agree not to enforce their patents in certain countries, giving local generic manufacturers free rein to sell inexpensive copies of a patented drug. In 2012, Johnson & Johnson agreed not to assert one of its HIV/AIDS drug patents in sub-Saharan Africa and other least-developed countries as part of its equitable pricing strategies. Ben Hirschler, *J&J Says It Won't Enforce AIDS Drug Patent in Africa,* Reuters (Nov. 29, 2012), http://www.reuters.com/article/2012/11/29/aids-jj-africa-idUSL5E8MTAP820121129. Overturning *Jazz Photo* would open the door for third parties to export and resell low-priced drugs outside of the region in need, undermining the public health benefits of these programs. GSK, for instance, lost over $18 million in sales when its AIDS drugs intended for sale in African countries were illegally resold in Europe. Gregory Crouch, *Europeans Investigate Resale of AIDS Drugs*, N.Y. Times, Oct. 29, 2002. Under the governing regime outlined in *Jazz Photo*, companies are able to enforce their U.S. patent rights by suing such resellers for patent infringement. Not so if the Court upends the current exhaustion rule.

The public harm is not mere speculation—it occurred in the copyright context after *Kirtsaeng*. Within one year after the decision, Wiley & Sons stopped selling its books in many emerging markets and increased prices in others. *First Sale Under Title 17: Hearing Before the Subcomm. on Courts,*

Intellectual Property, and the Internet of the H. Comm. on the Judiciary, 113th Cong. 6-18 (2014) (testimony of Stephen M. Smith, President and CEO, John Wiley & Sons, Inc.). The General Counsel for the Software and Information Industry Association stated, "[Publishers] have chosen to raise their prices to eliminate the profit of gray market importation.... [T]he [*Kirtsaeng*] decision has really resulted in everyone losing.... At the end of the day, that means fewer works will be created [and] the works will be updated less frequently." Anandashankar Mazumdar, Aereo, *Fallout From* Kirtsaeng, *Legislative Action Among Key Copyright Issues In 2014*, Patent, Trademark & Copyright J., Jan. 24, 2014, at 2.

The detrimental impact would be even greater in the biotechnology space, where the development costs are drastically higher and the duration of IP protection is much shorter. Copyright holders have a lifetime plus 70 years to recoup much smaller development costs, while patent owners have less than 20 years, much of which may have elapsed by the time the biotechnology product is approved for marketing. 17 U.S.C. §§ 302-5 (duration of copyrights); 35 U.S.C. § 154 (duration of patents); Hui-Hsing Wong et al., *Examination of Clinical Trial Costs and Barriers for Drug Development* 1-2 (July 25, 2014), https://aspe.hhs.gov/pdf-report/examination-clinical-trial-costs-and-barriers-drug-development. And, unlike copyright, where protection exists from the moment of creation, patent

protection can be obtained only through a long, costly application and prosecution process.[3]

3. Territorial limits on exhaustion serve additional public policy goals.

There are also important public health and safety reasons, which are not present in the copyright context, for BIO and CropLife members to monitor and control importation and resale of their products. Biopharmaceuticals and other biomedical products and services are highly regulated by each country. *See* David Vogel, *The Globalization of Pharmaceutical Regulation*, 11 Governance 1, 1-2 (1998). Each regulatory agency must review and approve almost every aspect of the product, including approved indications, dosage, shipment and storage conditions, lifespan, warnings, advertising, and packaging. *Id.* Labels may vary country by country; unauthorized importation and resale of products initially sold in a foreign country undermine the manufacturer's ability to ensure compliance, putting the safety of downstream purchasers at risk. Transgenic crops and bioagriculture products are also heavily

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[3] The USPTO reports that the average patent prosecution from filing to issuance or abandonment consumes 25.3 months. USPTO, *Performance and Accountability Report 2016* 178 https://www.uspto.gov/sites/default/files/documents/USPTOFY16PAR.pdf. Typical charges for preparing and filing an original application range from $7,622 to $11,941. Am. Intellectual Prop. Law Ass'n., *Report of the Economic Survey* I-90-91 (2015).

regulated. *See Agricultural Biotechnology*, U.S. Dep't of Agric., http://www.usda.gov/wps/portal/usda/usdahome?navid=BIOTECH (last visited Feb. 7, 2017).

Because of the public and private benefits that come from a manufacturer's ability to control resale in another country through the patent system, the longstanding industry expectation is that U.S. patent rights are not conveyed as part of a foreign sale unless there is an express and affirmative grant of such rights. Adopting Petitioner's position here would force patent owners to alter their sales and licensing practices around the world, introducing needless and economically inefficient complications into each and every transaction.

Nor should this Court adopt the position of the Government, which also seeks to change the current regime in a way that provides no added benefit to anyone. U.S. Br. at 32-34. The Government contends that international sales should presumptively exhaust domestic patent rights unless the patentee makes an "express reservation" of U.S. patent rights. *Id.* This approach makes little practical sense. First, it confounds the statutory scheme, which grants to the patentee an unconditional right to exclude others from importing the patented invention. 35 U.S.C. §§ 154(a), 271(a). Second, it raises the transaction costs for U.S. patent holders by forcing them to make an "express reservation," and for foreign market participants by forcing them to ascertain the rights that were "reserved" in the licenses under which these products were first sold in the foreign market. Third, it creates uncertainty and raises the costs of the

inevitable litigation over whether the patent holder's reservation of rights was sufficiently clear or otherwise effective under foreign contract law. Finally, the Government offers no reason why, under its proposed new rule, a patent owner would not be well advised always to reserve its rights, knowing that it could not foresee every scenario in which its products may be sold downstream. The effect would be to create a trap for the unwary, and penalize small businesses who cannot afford sophisticated legal counsel to advise them of a change in longstanding doctrine.

4. Contract law does not provide an adequate substitute for regional pricing enforcement.

Contract law does not provide an adequate substitute for using the patent system to enable regional pricing. Requiring biotechnology companies to enter into elaborate contracts with every purchaser of, for example, a $100 vial of biological material, is inefficient and burdensome for both sellers and purchasers. Moreover, patent owners could enforce such contracts only against initial purchasers, not subsequent resellers, because patent owners would lack privity of contract with the latter. Such a system would invite gamesmanship by downstream resellers. In addition, the enforcement of sales contracts against initial purchasers could be subject to many different foreign laws, creating uncertainty and inefficiency. U.S. patent law, by contrast, permits the patent owner to pursue adequate remedies in federal courts or the International Trade Commission against aggregators and resellers who import the patented

products, regardless of the product's chain of custody. *See* 35 U.S.C. §§ 281, 283-84; 19 U.S.C. § 1337.

What is more, confining patent owners to actions for breach of contract would force them to bring multiple actions in multiple jurisdictions across the globe, because the initial purchasers of patented biotechnology products represent a wide and diverse group of customers, including small institutions. Not only do biotechnology companies have no desire to sue their customers, requiring them to do so would be costly and highly inefficient. It would waste judicial resources and unnecessarily target consumers and small businesses to account for the actions of subsequent resellers, who are the true cause of the harm. *See generally FACT SHEET: White House Task Force on High-Tech Patent Issues*, The White House (June 4, 2014) ("End-users should not be subject to lawsuits....").

D. Adopting an international exhaustion rule would be harmful to the domestic economy.

Petitioner's argument that the current law harms the domestic economy is mistaken. Br. at 55-58. On the contrary, protecting U.S. patent rights benefits American innovators like BIO and CropLife member companies, as well as consumers. As discussed above, the current regime is economically efficient, allowing companies to engage in regional pricing tailored to country-specific markets and needs. It does not raise prices for consumers. In fact, the perverse result of *Kirtsaeng* was to raise prices for consumers globally. *See* Mazumdar, *supra*.

The biotechnology industry represents an important, and ever-growing, part of the U.S. economy. In fact, biotech revenue growth was reported to be the equivalent of 5% of the annual U.S. gross domestic product growth for each year from 2007 to 2012. Robert Carlson, *Estimating the biotechnology sector's contribution to the US economy*, 34 Nature Biotechnology 246, 247 (2016).

The current territorial limits on patent exhaustion benefit domestic industries, including the biotechnology industry, and their workers. Most of BIO and CropLife's member companies—and in the case of bioagricultural companies, some of their customers—are exporters. For example, BIO and CropLife's bioagricultural companies sell planting seed to growers, a portion of whom sell the resulting crop for export. The United States is the world's largest producer and exporter of corn and soybeans. *Corn*, USDA Economic Research Service (Feb. 14, 2017), https://www.ers.usda.gov/topics/crops/corn/trade/; *Soybean & Oil Crops*, USDA Economic Research Service (Oct. 12, 2016), https://www.ers.usda.gov/topics/crops/soybeans-oil-crops/trade. An average of nearly 51 million metric tons of corn and corn products were exported each year between 2014 and 2016. The export numbers for soybeans and soybean products are even higher, with an average of over 63 million metric tons exported each of the calendars years 2014-2016.[4]

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[4] Data from Global Trade Atlas, a global import/export commodity trade database (https://www.gtis.com/gta/).

If the Court were to undo the current regime and adopt the international exhaustion rule, it would shift the economic incentives from American exporters to importers, including those that engage in arbitrage. This result would be harmful to domestic economic growth, including the American workers employed by these domestic manufacturers. *See* Brett Shanks, *The First Sale Doctrine and Unauthorized Imports: Feeding an Out-of-Control Gray Market*, 53 Washburn L.J. 119, 135-36 (2013).

Indeed, the brief filed by Amici Intel Corp. et al. only serves to underscore how a shift to an international exhaustion rule would provide a windfall to importers that source and manufacture their products outside the United States—to the detriment of U.S.-based manufacturers and their domestic employees who produce goods for foreign markets. Amici Intel Corp. et al. seek enhanced protection for an international supply chain of foreign manufactured components, describing how Intel's supply chain "comprises more than 16,000 suppliers in over 100 countries" and iPhones use components from over 30 countries. Intel Br. at 7. In sum, this Court should reject the arguments by Petitioner and its amici suggesting that reversal of the Federal Circuit's precedent in favor of international patent exhaustion would be good for the U.S. economy.[5]

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[5] Likewise, Petitioner and its amici incorrectly suggest that there would be a significant economic benefit arising from the purported savings in licensing and other transactional costs under an international exhaustion rule. *See, e.g.*, Intel Br. at 10-14. However, the brief filed by Intel Corp. et al. shows how

II. Restricted Domestic Sales Do Not Exhaust Patent Rights.

A. *Mallinckrodt*'s holding is consistent with longstanding Supreme Court precedent on conditional sales.

The holding of *Mallinckrodt* is built on the foundational principle of patent law, reaffirmed by over a century of Supreme Court decisions, that a patent confers upon its owner a "bundle" of distinct and separable rights, which the owner can separately transfer through restricted licenses and conditional sales. *See, e.g.*, 35 U.S.C. § 154(a)(1) (patent owner has "the right to exclude others from making, using, offering for sale, *or* selling the invention") (emphasis added); *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 32 (1913) ("The owner of a patent has exclusive rights, rights of making, using and selling. He may keep them or transfer them to another—keep some of them and transfer others. This is elementary."); *see*

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these licensing agreements are already in place for complex, multi-component devices. *Id.* at 11. This is not surprising: large companies like Intel and Apple have the market power to negotiate worldwide licenses from their suppliers. A rule of international patent exhaustion would still require large-scale importers to do their diligence because they will still have to ascertain the scope of the initial patent grant and whether that sale was in fact authorized. Hemel & Ouellette, *supra*, at 22; *see also* Intel Br. at 17 n.5 (stating that a smartphone could practice 250,000 patents). As a result, international patent exhaustion would not eliminate transaction and associated information costs, contrary to the arguments of Petitioner and its amici.

also Adams v. Burke, 84 U.S. (17 Wall.) 453, 456 (1873) ("The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee."); *Simpson v. Union Oil Co.*, 377 U.S. 13, 24 (1964) (same).

Consistent with this core principle, this Court has long recognized that a patent owner may grant a license for a restricted use. In *United States v. General Electric Company*, 272 U.S. 476 (1926), this Court stated that a patent owner is entitled to grant a license "upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." *Id.* at 489. The Court also recognized the validity of conditional sales by patent owners over a century ago in *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1873), which involved an infringement suit brought by a patent owner's assignee against a subsequent purchaser. There, the Court stated that patent rights are exhausted only when the patent owner "has himself constructed a machine and sold it *without any conditions*, or authorized another to construct, sell, and deliver it ... *without any conditions*." *Id.* at 547 (emphases added); *see also Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 663 (1895) (same). *Mitchell* established that a patent owner may enforce restrictions on the post-sale use of a patented article through an infringement action.

The Court reaffirmed the principles of *Mitchell* in the context of restricted licenses in *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938), *opinion on reh'g*, 305 U.S. 124 (1938). There,

the patent owners granted a license to the American Transformer Company to make and sell amplifiers for certain specified non-commercial uses. American Transformer Company sold amplifiers to General Talking Pictures, who used the amplifiers in movie theaters in violation of the restricted license. The Court held that General Talking Pictures was liable for infringement "because it ha[d] used the invention without license to do so." 305 U.S. at 127. Importantly, the patent owners had no direct relationship with General Talking Pictures, and certainly no contractual relationship. The patent owners could nonetheless seek redress from General Talking Pictures because its use of the invention exceeded the limited license the patent owners conferred on the seller.[6]

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[6] Petitioner and the Government put forward an absurd reading of *General Talking Pictures*. Pet'r Br. at 39-41; U.S. Br. at 19-22. Under their reading, a patent owner who gives a limited license to a third party to make and sell the patented product can *only* sue a purchaser for infringement if the licensee exceeds its authority and does not inform the purchaser of the license limitations. If the patentee sells the product directly to the purchaser under a restricted sale, or the purchaser buys the product from the licensee who properly informs the purchaser of the license limitations, Petitioner and the Government take the position that, if the purchaser knowingly disregards the limitations, then the patent owner has no recourse against the purchaser under patent law. Thus, the innocent purchaser that buys the product from a devious licensee can be liable for infringement, but the flagrant purchaser that knowingly violates the terms of purchase communicated either directly from the patent owner or the licensee cannot be liable for patent

The Federal Circuit's decision in *Mallinckrodt* built on fundamental principles spanning over a hundred years of Supreme Court precedent and held that unless a conditional sale "violate[d] some other law or policy ... private parties retain the freedom to contract concerning conditions of sale." 976 F.2d 700, 708 (Fed. Cir. 1992). *Mallinckrodt* involved a "single-use only" restriction on a patented medical device sold to a hospital, which in turn sold the device to the defendant for refurbishing, leading to a patent infringement action against the defendant. *Id.* at 701, 709. *Mallinckrodt* recognized this Court's clear precedent that the patent owner's right to exclude permits it to convey only part of its bundle of patent rights by restricting the sale—without giving rise to exhaustion. The Federal Circuit correctly held in *Mallinckrodt* that the appropriate inquiry is whether the patent owner's "restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason." *Id.* at 708.

B. *Quanta* did not overrule *Mallinckrodt*.

Nothing in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), altered the patent owner's well-established right to impose conditions on a sale without exhausting its patent rights. When the Court decided *Quanta*, it received extensive briefing from amici, including the

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infringement. *General Talking Pictures* does not stand for such an absurd rule of law.

Government, urging it to address the first-sale doctrine in light of *Mallinckrodt*. *See, e.g.*, U.S. Amicus Br. at 18-24, *Quanta* (No. 06-937).

Instead of addressing *Mallinckrodt* and conditional sales, the Court held that because LGE's license agreement permitted Intel to make and sell microprocessors and chipsets and sell those products to Quanta without restrictions, Intel's subsequent sales to Quanta were authorized, and LGE's patent rights therefore were exhausted. *See, e.g.*, *Quanta*, 553 U.S. at 637 ("The License Agreement authorized Intel to sell products that practiced the LGE Patents. No conditions limited Intel's authority to sell products substantially embodying the patents."); *id.* at 638 ("Nothing in the License Agreement limited Intel's ability to sell its products practicing the LGE Patents."). Importantly, the Court left untouched the holding in *Mallinckrodt* that a patent owner may enforce conditions on a sale through actions for patent infringement, so long as the conditions are not anticompetitive. Those facts simply were not before the Court in *Quanta*: a licensee was selling products, not the patent owner, and there were no restrictions on the licensee's ability to sell licensed products.

This Court did not overrule *Mallinckrodt*, or the precedent supporting it, *sub silentio*, as Petitioner argues. *Mallinckrodt* is grounded in sound Supreme Court law permitting the enforcement of post-sale use restrictions. *E.g.*, *Gen. Talking Pictures*, 305 U.S. at 126-27. This Court was well aware of its precedent at the time it decided *Quanta*, and it understandably left *Mallinckrodt* intact.

C. Public policy considerations support upholding *Mallinckrodt*.

This Court should not lightly overturn decades of established law upon which domestic industries, BIO's and CropLife's members among them, have built their businesses. As this Court recently emphasized, maintaining established law is the "preferred course because it promotes the evenhanded, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process." *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2409 (2015) (quoting *Payne v. Tennessee*, 501 U.S. 808, 827-28 (1991)). This is especially true here where the question before the Court involves the intersection of property (patents) and contracts (restricted sales and licenses). This Court has "often recognized that in just those contexts" concerns over overturning established law are "at their acme" because "parties are especially likely to rely on such precedents when ordering their affairs." *Id.* at 2410 (quoting *Payne*, 501 U.S. at 828). Companies, including those in the biotechnology industry, have long structured their licensing relationships and sales practices using conditions such as field-of-use restrictions, single-use restrictions, and the like, by negotiating royalty rates and prices to reflect the value of the rights conveyed.

This Court should not cast aside well-established law that is deeply ingrained in industry custom, permits economically efficient practices, and benefits all parties involved as well as the broader public. For instance, through field-of-use restrictions,

everyone benefits: the patent owner expands the market for its technology and maximizes its financial return, increasing the capital available to develop new technologies; the purchasers pay only for the specific patent rights they need, allowing them to obtain, at lower cost, patented articles that otherwise might be price prohibitive; and the public benefits because the patented technology can be incorporated into a broader and more diverse range of products. *See* Jay Dratler, Jr. & Stephen M. McJohn, *Licensing of Intellectual Property* § 7.04 (2015) ("[F]ield-of-use restraints serve[] to provide strong incentives for innovation and creativity ...."). As the Federal Circuit recognized below, "Lexmark's Return Program provides customers an immediate up-front benefit: a choice between two options, one offering them a lower price in exchange for the single-use/no-resale limitation." 816 F.3d 721, 752 (Fed. Cir. 2016).

Likewise, within the life sciences sector, the patent owner, patient, customer, and the public all benefit from the availability of "research-only" restricted sales. Numerous BIO and CropLife members make their patented technology available at a low cost to non-profit universities and smaller companies to engage in basic research, thereby encouraging further innovation built on patented inventions. Numerous BIO member companies also sell their patented products for "diagnostic use only," at a price somewhere between a product intended for research use and a product intended for commercial use. These sales are made to entities that do not seek to commercialize a therapeutic product and typically cannot afford the cost of a full commercial sale.

There is no reason to cast aside what has long been a highly efficient system, as the biotechnology experience illustrates. An unconditional sale of a patented article to conduct early-stage testing could be cost prohibitive and unnecessary; but after initial testing to identify promising candidates for further research and development under a limited conditional sale, the parties can negotiate a more robust commercial agreement on different financial terms. As with field-of-use restrictions, patent owners benefit by seeding early research, thus maximizing access to the technology while providing a reasonable financial return; purchasers benefit by paying only for the patent rights they need; and the public benefits through expanded opportunities for basic research and experimentation as well as the subsequent development of new, potentially life-saving, products.

The ability to condition sales without exhausting patent rights also is important to BIO and CropLife members that sell self-replicating products, such as seeds and cell lines. Without the patent owner's knowledge or control, these products can be replicated, disseminated, and incorporated into other products. It is precisely for this reason that manufacturers of such products require purchasers to enter into conditions of sale. These are cases of "control by necessity." Dratler & McJohn, *supra*, § 7.05. Manufacturers of patented seed and cell lines sell their products for a low initial cost to a broad market, including farmers who could not afford higher prices, based on the assurance that their products will be used only for the limited purposes set forth in the license. The continued enforceability of their patent rights after first sale is a critical tool in

allowing these companies to police their use restrictions, particularly against unauthorized downstream users of their patented products.

As even Petitioner recognizes, the principle underlying the rule of patent exhaustion for an unconditional sale is that the patentee has bargained for, and received, an amount equal to the full value of the goods. But in the context of a conditional sale, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the "use" rights conferred by the patentee. Overruling *Mallinckrodt* would eviscerate this principle, a principle upon which BIO and CropLife members and other patent owners have long relied in conducting their business practices.

Finally, BIO and CropLife members, particularly agriculture and agrichemical companies, rely on use restrictions as a means to ensure product stewardship for the good of the environment and public health. Restrictions on herbicides, for example, may require certain use patterns and application rates to minimize risks to protected plant species. Similarly, use restrictions may require that certain products will be sold only to those who are qualified to use the products in a responsible manner. *See generally Guide For Stewardship Of Biotechnology-Derived Plant Products*, Excellence Through Stewardship (2013), http://c.ymcdn.com/sites/www.excellencethroughstewardship.org/resource/resmgr/Files/Guides/Stewardship_Guide_Revision_v.pdf (describing importance of establishing licenses that include stewardship requirements).

These examples illustrate how BIO and CropLife members have a genuine and vital interest in controlling downstream use of their products to protect not only their reputation, but also downstream purchasers and the public. As the Federal Circuit correctly noted below:

> [Companies can have a] legitimate interest in not having strangers modify its products and introduce them into the market .... A medical supplier ... may have similar reason to believe that reuse, when not under its own control, carries a significant risk of poor or even medically harmful performance, to the detriment of its customers and its own reputation.

816 F.3d at 752.

Contrary to Petitioner's argument, the remedies afforded by contract law do not adequately protect these interests in enforcing use restrictions. There is often no privity between the patent owner and downstream end-users or purchasers. In those circumstances, contract law provides no remedy, whereas patent law ensures that use restrictions can be enforced against a party engaging in unauthorized use. Moreover, as a practical matter, contract law varies from state to state, in contrast to the uniform U.S. patent law.

Petitioner's criticisms of the policy implications of *Mallinckrodt* are misplaced. These criticisms ignore the fact that *Mallinckrodt* has been the governing law for decades. BIO and CropLife members have long structured their businesses on

this conditional sales and licensing regime. If Petitioner's parade of horribles posed any true threat to industry and the public, everyone, including BIO and CropLife members, would have already suffered those ill effects. As the Federal Circuit stated below, there is "no basis for predicting the extreme, lop-sided impacts." 816 F.3d at 752. Rather, "*Mallinckrodt* has been the governing case law since 1992 and has been reiterated in subsequent precedent [and the court has] been given no reliable demonstration of widespread problems not being solved in the marketplace." *Id.* Petitioner's dire predictions of the death of secondary and repair markets are unsupported and cannot be squared with the ongoing existence of these markets and the ability of the market to accommodate the needs and demands of consumers. Moreover, even if Petitioner's parade of horribles were supported by evidence, claims that longstanding precedent has "'serious and harmful consequences' for innovation are ... 'more appropriately addressed to Congress,'" the branch that "has the capacity to assess [the] charge" that the precedent in question "suppresses technological progress." *Kimble*, 135 S. Ct. at 2414 (quoting *Halliburton Co. v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2413 (2014)).

In sum, the current legal regime has long ensured certainty and efficiency in the market. Petitioner's request to overrule *Mallinckrodt* and disrupt the way patented products have been and continue to be sold should be rejected. To do otherwise would fundamentally alter the market for many patented products: disrupting pricing strategies, restricting access to innovative products,

and creating obstacles to further innovation as well as the country's economic growth.

CONCLUSION

For the foregoing reasons, this Court should affirm the Federal Circuit's decision below.

Respectfully submitted,

Barbara A. Fiacco
Counsel of Record
Sarah S. Burg
Stephen T. Bychowski
FOLEY HOAG LLP
155 Seaport Boulevard
Boston, MA 02210
(617) 832-1000
bfiacco@foleyhoag.com

Counsel for Amici Curiae Biotechnology Innovation Organization and CropLife International

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Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF THE BOSTON PATENT LAW ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT WITH RESPECT TO QUESTION NO. 2

SANDRA J. BADIN
MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C.
One Financial Center
Boston, Massachusetts 02111
(617) 542-6000
sjbadin@mintz.com

DANIEL L. SHORES
Counsel of Record
MILTON M. OLIVER
GLENN E. KARTA
SHORES & OLIVER, P.C.
One Boston Place
Boston, Massachusetts 02108
(617) 981-7833
daniel.shores@shoresoliver.com

Counsel for Amicus Curiae

February 23, 2017

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INTERESTS OF AMICUS CURIAE[1]

The Boston Patent Law Association (BPLA) is a professional association of approximately 1,000 attorneys and other professionals whose interests and practices are in the area of intellectual property law. The BPLA's members include both in-house and outside counsel representing a diverse range of clients. The BPLA therefore has an institutional interest in seeing intellectual property law develop in a clear, predictable, and coherent way. It has no stake in the outcome of this matter other than with respect to its interest in seeing U.S. law interpreted in a manner that promotes innovation and protects innovators.[2]

SUMMARY OF ARGUMENT

The Court has long recognized the "general rule" that U.S. patent law is territorial. This rule is explicitly provided for in the Patent Act itself. There are some limited statutory exceptions to the territoriality requirement, but these only reinforce that absent a statutory provision to the contrary, U.S. patent rights and remedies do not extend beyond the borders of the United States.

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1. Consistent with Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. Counsel for all parties have consented to the filing of this brief.

2. The BPLA has no financial interest in any party or the outcome of this case. This brief was neither authored nor paid for, in whole or in part, by any party. Petitioner has provided its consent via email dated February 8, 2017. Respondent has consented to the filing of this brief through a blanket consent letter filed with the Clerk's Office.

The Court has never applied the patent exhaustion doctrine to foreign sales. Petitioner's reliance on footnote 6 in *Quanta* for the contrary proposition is misplaced. Footnote 6 did not extend the domestic exhaustion doctrine internationally. It simply clarified that domestic exhaustion could not be undermined by non-infringing use outside the United States.

The patent exhaustion doctrine's bargained-for exchange, as recognized by the Court, is domestic in nature and does not take foreign sales into account. Expanding the doctrine to cover foreign sales would inequitably force U.S. patent holders to part with their U.S. patent rights for sales that do not implicate those rights in the first instance.

The Court's ruling in *Kirtseang*, which interpreted Section 109(a) of the Copyright Act to have extraterritorial reach, is inapposite to this case. *Kirtseang* involved the interpretation of a specific provision in the Copyright Act providing copyright exhaustion, whereas no such provision exists in the Patent Act. That key distinction and the fundamental differences in each body of law counsel against harmonization and creating a judicial rule of foreign patent exhaustion.

Other serious policy concerns explain why Congress has not passed a law providing that U.S. patent rights are exhausted by foreign sales. Such concerns involve not only foreign patent law regimes, but also price disparities in foreign markets and international trade policies as they relate to U.S. businesses. Congress is uniquely positioned to take such complex economic and policy issues into account.

In seeking to have the patent exhaustion doctrine apply outside of the U.S., Petitioner asks the Court to make a determination Congress has repeatedly declined to make—and for good reason. Petitioner's request should be denied.[3]

ARGUMENT

I. U.S. Patent Exhaustion Law Should Not Be Extended to Foreign Sales.

A. As a General Rule, U.S. Patent Law Does Not Apply Outside of the U.S.; Petitioner's Request for a Judicial Exception to This Rule Should Not Be Granted.

The Court has long recognized that the U.S. patent laws "do not, and were not intended to, operate beyond the limits of the United States." *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1857). *See also Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444 (2007). This principle is grounded in the Exclusive Rights clause of the U.S. Constitution. *See Brown*, 60 U.S. at 195 (recognizing Congressional power in making laws under Art. I, §8, cl.

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3. The BPLA's contribution is this matter is limited to Question No. 2 presented in the writ of certiorari. The BPLA's silence with respect to Question No. 1 is in no way intended to be construed as advocating reversal on Question No. 1. To the contrary, the BPLA endeavors to support a strong and vibrant patent system and believes affirmance on Question No. 1 is also appropriate. Out of considerations of space and time, however, it has sought to contribute to that cause by focusing on the discrete foreign patent exhaustion issue discussed in this brief.

8 "is domestic in its character, and necessarily confined within the limits of the United States.").

The "general rule that our patent law does not apply extraterritorially" is "embedded in the Patent Act itself." *Microsoft*, 550 U.S. at 442 and 455. For example, the Patent Act grants a patentee the "right to exclude others from making, using, offering for sale, or selling [its] invention *throughout the United States* or importing [its] invention *into the United States* . . . ," 35 U.S.C. § 154(a)(1) (emphasis added), with infringement actionable based upon conduct occurring *"within the United States . . .."* 35 U.S.C. § 271(a) (emphasis added). *See also* 35 U.S.C. §§ 271 (c) and (e).

There are a few explicit statutory exceptions to the territoriality requirements of U.S. patent law. For example, Section 271(f) of the Patent Act imposes infringement liability on "whoever without authority supplies [uncombined components] . . . in or from the United States . . . in such manner as to actively induce the combination of such components *outside of the United States* in a manner that would infringe the patent *if such combination occurred within the United States . . .."* 35 U.S.C. § 271(f)(1) (emphasis added). *See also* 35 U.S.C. § 271(f)(2) (similarly imposing infringement liability based upon the supply of "especially made [components] . . . in or from the United States . . . combined *outside of the United States* in a manner that that would infringe if [the same] occurred within the United States") (emphasis added). Other statutory exceptions include Section 271(g) (passed in 1988 imposing infringement liability for importation of products *made abroad* by a process patented in the U.S.) and Section 105 (passed in 1990 requiring inventions made,

used or sold *in outer space* to be considered as if made, used or sold in the U.S. under certain circumstances). These explicit statutory exceptions to the U.S. patent law's territoriality requirement serve to reinforce its limited reach, which extends only to U.S. borders absent "a clear and certain signal from Congress" to the contrary. *Deepsouth*, 406 U.S. at 531.

In seeking to have the patent exhaustion doctrine apply outside of the U.S., Petitioner asks the Court to stand in Congress's place and make a judicial exception to the patent law's territoriality requirement. This request runs counter to the Patent Act and longstanding precedent of the Court and should not be granted.

B. The Court Has Never Applied The Patent Exhaustion Doctrine to Foreign Sales; *Quanta* Footnote 6 Is Not to the Contrary.

The Court has only applied the "longstanding doctrine of patent exhaustion" in cases involving domestic sales. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 533 U.S. 617, 626 (2008). *See also U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942); *Bloomer v. McQuewan*, 55 U.S. 539 (1852). The Court has never applied this doctrine to foreign sales, although it has had the opportunity to do so. *See Boesch v. Graff*, 133 U.S. 697, 703 (1890) (holding that patented lamp burners lawfully purchased in Germany by a third party, but not authorized by the U.S. patentee, could not then be sold "in the United States in defiance of the rights of patentees under a United States patent.").

Petitioner relies on footnote 6 of the Court's *Quanta* decision for the proposition that "international sales

exhaust patent rights." Petitioner's Brief at 48-49. Petitioner's reliance on footnote 6 is misplaced. In *Quanta*, there were no foreign sales at issue allegedly causing exhaustion of U.S. patent rights. As the Federal Circuit explained in *Fujifilm v. Benun*, footnote 6 was directed to whether the products in question "substantially embodied" the patent under U.S. law, and not whether foreign sales exhausted U.S. patent rights:

> Defendants rely on *Quanta*'s footnote 6 because it contains the phrase "[w]hether outside the country." This phrase, however, emphasizes that *Univis* required the product's only use be for practicing—not infringing—the patent; and a practicing use may be "outside the country," while an infringing use must occur in the country where the patent is enforceable. Read properly, the phrase defendants rely on supports, rather than undermines, the exhaustion doctrine's territoriality requirement.

605 F.3d 1366, 1371-72 (Fed. Cir. 2010).

Indeed, far from extending the domestic exhaustion doctrine internationally, footnote 6 simply made clear that domestic exhaustion could not be defeated by the possibility of non-infringing foreign use. To have held otherwise would have eviscerated the doctrine of domestic exhaustion altogether because patented products are always capable of non-infringing foreign uses. It does not follow, as Petitioner contends, that non-infringing foreign uses, which by their very nature do not implicate U.S. patent rights, could be said to exhaust those rights—much less that *Quanta* so held.

C. The Patent Exhaustion Doctrine's Bargained For Exchange Does Not Apply Abroad Because U.S. Patent Rights Are Not Implicated in Such an Exchange.

The Court has recognized that when a patentee decides to sell an article, it bargains for that sale in consideration of the "monopoly" conferred to it under U.S. patent law. *See, e.g., Bloomer*, 55 U.S. at 550 ("when the machine passes to the hands of the purchaser, it is no longer *within the limits of the monopoly.* It passes outside of it, and is no longer under the protection of the act of Congress.") (emphasis added); *Univis*, 316 U.S. at 250 ("[t]he patentee *may surrender his monopoly* . . . in part by the sale of an article embodying the invention.") (emphasis added); *id.* at 251 ("[upon sale of a patented article, the patentee], has parted with his patent monopoly . . . and *has received in the purchase price every benefit of that monopoly* which the patent law secures to him.") (emphasis added).

Like the patent law itself, the bargained-for exchange is domestic in its character, and does not take into account—or implicate—foreign sales. That makes perfect sense because when selling products abroad, the U.S. patent holder has no enforceable U.S. patent rights to bargain with. Instead, the U.S. patent holder is subject to foreign patent laws and must rely on foreign patent rights it may have secured in the country of sale. U.S. patent laws simply do not apply. *Microsoft*, 550 U.S. at 455. Expanding the U.S. patent exhaustion doctrine to sales made abroad would improperly force a U.S. patent holder to part with its rights in a sale that does not implicate those rights.

That result would be harmful to U.S. patent holders and their economic activity abroad. For example, like foreign patent laws, foreign market conditions influence both the decision to sell abroad and the terms and conditions under which those sales are made. Such market conditions, including product pricing, can vary widely from country to country. Under a new rule of foreign patent exhaustion, U.S. companies that sell products abroad at prices that are significantly lower than U.S. prices would be forced to recalibrate whether they can continue to sell in such countries, or must instead discontinue operations based on concerns over competing parallel imports in the U.S. and the potential need to increase prices in foreign markets, among other considerations.

Such legal and policy considerations counsel against applying patent exhaustion extraterritorially absent Congressional action to the contrary. This is the course the Court has taken in the past when faced with questions regarding whether to apply U.S. patent law to foreign conduct. *See, e.g., Deepsouth*, 406 U.S. at 531 (refusing to apply Section 271 of the Patent Act extraterritorially, thereby causing Congress later to craft Section 271(f) to take into account the activity at issue in that case, *i.e.*, foreign assembly of U.S. originated components that would infringe if such assembly were made, used, or sold in the U.S.); *Life Techs. Corp. v. Promega Corp.*, 580 U.S. [ ] (2017) No. 14-1538 (February 22, 2017) (recognizing that "Congress enacted 271(f) in response to our decision in *Deepsouth* . . .").

D. Unlike the Copyright Act, the Patent Act Does Not Contain an Exhaustion Provision; The Foreign Exhaustion Rule Expounded in *Kirtsaeng* is Confined to the Copyright Act.

In advocating for an absolute rule of foreign patent exhaustion, Petitioner relies heavily on the Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2012), in which the Court determined that the Copyright Act's exhaustion provision set forth in 17 U.S.C. § 109(a) has extraterritorial application. *See* Petitioner's Brief at 44-48. *Kirtsaeng* is inapposite for several important reasons.

In *Kirtsaeng* the Court interpreted Section 109(a) of the Copyright Act, an explicit act of Congress codifying Copyright exhaustion. There is no corresponding exhaustion provision in the Patent Act. Petitioner therefore invites the Court to proclaim such an extraterritorial rule in patent law in the absence of Congressional action and to put itself in Congress's position, which it should not do.

Petitioner also invites the Court to harmonize patent law and copyright law on this issue, but there is no justification for doing so because they are two separate and distinct statutory regimes. Indeed, although each is grounded in Art. I, §8, cl. 8., of the U.S. Constitution, the patent law and copyright law are two different legal regimes. Each is a distinct body of law that should be interpreted in accordance with its own terms and underlying policy rationales. *See, e.g., Sony Corp. of Am. v. Universal City Studious, Inc.*, 464 U.S. 417, 439, fn. 19 (1984) (recognizing that the two bodies of law "naturally, are not identical twins" and exercising caution not to

"apply[] doctrine formulated in one area to the other."); *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 345 (1908) (making the logically similar argument that "[i]f we were to follow the course taken in the argument, and discuss the rights of a patentee, under letters patent, and then, by analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that character shall be presented to this court.").

One distinction is that copyright law protects works of authorship "fixed in any tangible medium of expression," 17 U.S.C. § 102(a), whereas patent law protects technological innovations that are new, useful and non-obvious, 35 U.S.C. §§ 101-103. In line with this distinction, the Court has recognized that "[u]nlike a patent, a copyright gives no exclusive right to the art disclosed; protection is given only to the expression of the idea—not the idea itself." *Mazer* v. *Stein*, 347 U.S. 201, 217 (1954).

Other differences relate to the procurement of rights under each regime. For example, with respect to copyright protection, an author of a work is automatically granted rights in its work under the common law and no federal registration is required. Federal registration does provide certain advantages, however, including the ability to seek and obtain statutory damages for infringement under federal law. *See* 17 U.S.C. §§ 411, 412 and 501-505. Therefore, many copyright holders seek federal registration to strengthen their rights. During the registration process, an applicant must submit a copy of its work to the Copyright Office along with a form application and fee. In stark contrast with the U.S. Patent and Trademark Office when examining patent applications,

the Copyright Office does not perform a substantive review of applications. *See, e.g.*, U.S. Copyright Office Compendium 602.4(C) ("The Copyright Office generally does not compare deposit copies to determine whether the work for which registration is sought is substantially similar to another work.").

Obtaining a patent is a much more arduous and expensive process than obtaining a copyright registration, requiring significant investment of time and money to secure rights that ultimately may never be granted. During that process, an applicant must determine whether its innovation is patentable subject matter in the first place. This involves consultation with an attorney to evaluate patentability and other merits of an application. If patent protection is desired, the patent application must then be prepared, which involves the drafting of a detailed written description, drawings, and claims, which is often an involved and expensive process the parameters of which can vary widely depending on the technology at issue. *See, e.g.*, *Topliff v. Topliff*, 145 U.S. 156, 171 (1892) (recognizing that the "specification and claims of a patent, particularly if the invention be at all complicated, constitute one of the most difficult legal instruments to draw with accuracy . . .").

The patent application is then filed with the United States Patent and Trademark Office, with examination often taking place over the course of multiple years. During that time, addressing examiner office actions can be a hard fought process. Example rejections include rejections based on complex issues of patentable subject matter (35 U.S.C. § 101), novelty (35 U.S.C. § 102), obviousness (35 U.S.C. § 103) and the written description requirement

(35 U.S.C. § 112). *See, e.g.*, 4 Donald S. Chisum, Chisum on Patents, § 11.03 (Matthew Bender). Often that process results in the original patent claims sought not being issued at all, or issued in an altered or narrowed form. *See, e.g.*, Walter G. Park, Economic Freedom of the World: 2001 Annual Report, *Intellectual Property and Patent Regimes*, 101-05 (2001). A similar process is undertaken with the assistance of foreign counsel when prosecuting patent applications in each foreign country in which patent protection is sought; such applications are governed by each country's own laws and standards. *Id.*

Other key differences between patent law and copyright law include the respective terms of protection; in the U.S., patents are generally granted a term of twenty (20) years from the date of filing, whereas copyrights are granted to an individual for the life of the author plus seventy (70) years or to an organization for a term of one-hundred-twenty (120) years from the year of creation or ninety-five (95) years from the year of first publication, whichever expires first. *See* 17 U.S.C. §§ 302(a) and (c). Yet another difference is that patent rights do not vest until the patent is granted, whereas copyright rights exist from creation, even absent a federal registration. Indeed, that difference is highlighted by the fact that an inventor can forfeit his or her rights to a patent by failing to file for a U.S. patent for more than a year after the inventor's first sale, offer for sale, or public disclosure of the invention. *See* 35 U.S.C. § 102. Such forfeiture also applies to foreign rights, which is not the case in copyright law.

These differences reflect the fact that each body of law has correspondingly different underlying policy rationales, which have been carefully considered by

Congress in making and amending each body of law. They counsel against imposing rules applicable in one body of law onto the other without the consideration and action of Congress, as Petitioner advocates here.

II. Public Policy Counsels Against Extending U.S. Patent Exhaustion to Encompass Foreign Sales.

Consistent with the territorial nature of patent law, each country has a separate and distinct patent regime that governs the requirements to obtain and enforce patent rights within each country. *See, e.g.*, Park, *supra* at 12. International treaties, such as the Patent Cooperation Treaty ("PCT"), help participating countries harmonize certain aspects of the patent procurement process, including administrative and priority matters relating to filing and prosecuting patent applications. *Id. See also Touchcom, Inc. v. Bereskin & Parr*, 574 F.3d 1403, 1408 (Fed. Cir. 2009) (explaining "the PCT provides a unified procedure for filing a single patent application in multiple countries.")

However, such treaties have historically left untouched the independent sovereignty of the respective national patent systems, which were each formed based on independent policy rationales unique to each country and on the territorial reach of patent law. *See, e.g.*, Paris Convention for the Protection of Industrial Property, Mar. 20 1883, 4*bis*., 25 Stat. 1372 (signed by U.S. in 1887) ("[p]atents applied for in the different contracting states . . . shall be independent of the patents obtained for the same invention in the other States"); *Voda v. Cordis Corp.*, 476 F.3d 887, 888-89 (stating "[t]he Paris Convention thus clearly expresses the independence of

each country's sovereign patent systems and their systems for adjudicating those patents. Nothing in the Paris Convention contemplates nor allows one jurisdiction to adjudicate the patents of another . . ..").

Accordingly, there is a well-established global patent system in place that U.S. and foreign market players have been using for many years. That system is based on the proposition that conduct within the borders of each country will be governed by each country's own laws. *See, e.g., Microsoft*, 550 U.S. at 455 (recognizing that foreign patent laws "'embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions.'") (quoting *F. Hoffman-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 164 (2004)).

From the perspective of a U.S. business, whether it is a startup or a Fortune 500 company, the assessment of whether to enter foreign markets to sell products carries many careful questions and key decisions. Relevant considerations include: (1) whether patent protection can be obtained in each country of interest, (2) whether the products risk infringing third party patents issued in each country, (3) what the market is in each country; (4) who the competitors are in each country; (5) whether to manufacture the products in each country of interest or elsewhere; and (6) at what price the products will be sold in each country.

The price of goods may vary broadly from one country to the next. By way of example, in order to stay competitive, a U.S. company might sell goods in a lesser-developed nation at a price significantly lower than in the United States. This is a function of such factors as

manufacturing, labor and shipping costs, along with other factors such as foreign forum laws and regulations. Other costs come into play as well, including costs relating to patent protection and risks relating to third-party patents. For example, the cost of prosecuting patent applications in each country can be expensive since foreign lawyers must be employed in each country in which patent prosecution occurs. Similarly, it may also be necessary to retain foreign lawyers for issues relating to patent enforcement, defense, licensing and other patent-related issues in each country.

All of these assessments involve thorough evaluation of costs and liabilities. In some instances it is cost prohibitive to operate in a certain country, in other instances third party patents may deter operation, and in yet other instances both circumstances exist. In most cases all of these and other factors are balanced together and a business decision is ultimately made. A change in any one of these parameters could drastically affect a U.S. company's ultimate decision and behavior.

Should foreign patent exhaustion become law, products sold abroad at lower prices could enter the U.S. markets and be resold, cannibalizing sales and cutting into the U.S. patent holder's market share. There is no starker example of this than in the pharmaceutical industry in the United States, which is home to the world's leading pharmaceutical market, employing nearly 1 million people in the United States and generating over $1 trillion in economic output. *See* SelectUSA.gov, *Pharmaceutical and Biotech Spotlight, The Pharmaceutical and Biotech Industries in the United States*, https://www.selectusa.gov/pharmaceutical-and-biotech-industries-united-states (last visited Feb. 22, 2017)

With increasing pressure to sell drugs at lower prices to under-developed nations, such a rule of automatic international patent exhaustion would expose U.S. based pharmaceutical companies to parallel imports of their own products repackaged as competing products. Much public debate surrounds the high price of drugs. Notwithstanding the public outrage at the large profits U.S. pharmaceutical companies make, those profits are not only justified by the high cost and extreme risk of research and development efforts, but they also allow drug companies to provide much-needed medicines to millions of people who could not otherwise afford them. Indeed, absent such incentives, many life-saving inventions might never be made at all.

If a foreign patent exhaustion standard were to be imposed, this would cause companies, including pharmaceutical and other companies selling lower-cost products abroad, to charge the same or substantially increased relative prices for products worldwide. In many cases this may result in U.S. companies not selling products (such as needed pharmaceutical products) in certain countries, including developing countries, because of the inability of purchasers in those countries to pay, depriving many of life-saving medicines. Further, such a rule would cause immediate harm to businesses that are locked into multi-year licenses and other agreements concerning low cost foreign sales of their products, especially if those agreements were entered into under the long-settled expectation that foreign patent sales do not exhaust U.S. patent rights.

Such results are not desirable for the reasons discused, which may help explain why Congress has not amended U.S. patent law to provide a rule of foreign patent

exhaustion. *See Kirtsaeng*, 133 S. Ct. at 1371 (recognizing that the "commercial power to divide international markets is a matter for Congress to decide.").

CONCLUSION

For the foregoing reasons, the BPLA respectfully requests that the Court affirm the Federal Circuit's decision with respect to Question 2, and hold that the patent exhaustion doctrine does not apply to foreign sales.

Respectfully submitted,

SANDRA J. BADIN
MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C.
One Financial Center
Boston, Massachusetts 02111
(617) 542-6000
sjbadin@mintz.com

DANIEL L. SHORES
Counsel of Record
MILTON M. OLIVER
GLENN E. KARTA
SHORES & OLIVER, P.C.
One Boston Place
Boston, Massachusetts 02108
(617) 981-7833
daniel.shores@shoresoliver.com

Counsel for Amicus Curiae

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IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF COSTCO WHOLESALE CORPORATION, LG ELECTRONICS INC., RETAIL LITIGATION CENTER, INC., SK HYNIX INC., AND WESTERN DIGITAL CORPORATION AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

ROY T. ENGLERT, JR.
ARIEL N. LAVINBUK
Counsel of Record
DANIEL N. LERMAN
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, NW
Suite 411L
Washington, D.C. 20006
(202) 775-4500
alavinbuk@robbinsrussell.com

Counsel for Amici Curiae

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BRIEF OF COSTCO WHOLESALE CORPORATION, LG ELECTRONICS INC., RETAIL LITIGATION CENTER, INC., SK HYNIX INC., AND WESTERN DIGITAL CORPORATION AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

INTEREST OF THE *AMICI CURIAE*[1]

Amici are leading manufacturers, retailers, and industry groups with a substantial interest in the proper resolution of this case.

- Costco Wholesale Corporation is the second-largest retailer and the largest membership-warehouse club in the United States.
- LG Electronics Inc. is one of the world's leading manufacturers of a wide variety of consumer electronics, mobile devices, and vehicle components.
- The Retail Litigation Center, Inc., is a public policy organization whose members include many of the country's largest retailers.

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[1] Respondent's blanket letter of consent to the filing of *amicus* briefs has been filed with this Court. Petitioner has consented to the filing of this brief; written documentation of that consent is being submitted concurrently. No counsel for a party wrote this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amici curiae*, their members, or their counsel made a monetary contribution intended to fund its preparation or submission.

- SK hynix Inc. is one of the world's largest manufacturers of semiconductors and memory chips.
- Western Digital Corporation is one of the world's leading manufacturers of data-storage devices and solutions and is a leading technology innovator, with more than 13,000 active patents.

Amici depend on an efficient and administrable first-sale doctrine. Product manufacturers require certainty regarding their ability to incorporate into products patented components acquired by their supply chain. Retailers likewise depend on the ability to resell products that they purchase from patentees, authorized licensees, and downstream sellers after authorized sales. *Amici* therefore have a significant interest in preventing unlawful restrictions on the free use and flow of duly purchased patented goods.

SUMMARY OF ARGUMENT

"For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item." *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 621 (2008). The Federal Circuit's decision below grafts two far-reaching exceptions onto that doctrine. According to the decision below, a patentee can circumvent the first-sale doctrine domestically—and thus restrict purchasers' subsequent use or sale of a patented article—simply by imposing "conditions" when it sells the article. And foreign sales of a patented article, even when authorized by the patentee, are immune from the

first-sale doctrine altogether. The exceptions created by the Federal Circuit are contrary to this Court's precedents, misinterpret the purposes of the Patent Act, and stifle competition—with profound implications for businesses and consumers alike.

I. The decision below will harm businesses and consumers by disrupting the free and orderly operation of markets.

a. The Federal Circuit's exhaustion rules will impose significant costs. Finished goods of all kinds often consist of multiple components that are themselves patented. The post-sale restraints authorized by the decision below cast a pall of uncertainty on the sale and resale of goods, and impose unwarranted costs on manufacturers and retailers.

Consumers will also suffer. The implication of the Federal Circuit's limitation on the first-sale doctrine is that a tourist who purchases a patented product abroad cannot take that product back to the United States—or use it here—without committing patent infringement. This Court should not sanction such a rule.

b. This Court recognized these same concerns in *Kirtsaeng*. The decision below brushes aside those concerns as copyright-specific. But this Court's analysis in *Kirtsaeng* was not so circumscribed. To the contrary, this Court explained that a robust first-sale doctrine is essential to protect the free flow of goods generally, and expressly addressed the implications for sales of cars, calculators, and computers—products that are undoubtedly subject to patents as well as copyrights. The Federal Circuit's

exhaustion rules will impede competition and imperil the very secondary markets that the common law has sought to protect for centuries.

II. The decision below conflicts with this Court's precedents holding that patentees cannot use the patent laws to enforce contractual conditions on the use of a patented article after its authorized sale.

a. "The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates *all* patent rights to that item." *Quanta*, 553 U.S. at 625 (emphasis added). That doctrine recognizes that "the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 251 (1942). The conditional-sale doctrine articulated by the Federal Circuit in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), and reaffirmed by the decision below, undermines that congressional purpose and impermissibly expands the scope of the patent monopoly.

The decision below also runs counter to the common law's longstanding disapproval of restraints on the alienation of chattels, which thwart competition and the development of robust secondary markets. Because the Patent Act says nothing to the contrary, "it did not alter" that "common-law rule." *Microsoft Corp.* v. *i4i Ltd. P'ship*, 131 S. Ct. 2238, 2254 (2011). Indeed, this Court has invoked the common law's hostility to restraints on alienation to support the application of the first-sale doctrine in both the patent and copyright contexts.

b. The decision below wrongly held that a patentee can nevertheless enforce any post-sale restriction on the use or sale of a patented article *through the patent laws*—unless the restriction would run afoul of some *other* source of law, such as the antitrust laws. Because the single-use condition at issue here is not *per se* illegal, the court reasoned, it is *necessarily* enforceable through an infringement action. In reaching that conclusion, the Federal Circuit opined that this Court's exhaustion precedents did not interpret the scope of the patent laws, but rather held only that patentees could not use the patent laws to enforce restraints that were *per se* illegal under other laws.

But those precedents were not so limited. Rather, this Court's early exhaustion cases make clear that the key inquiry is to determine whether, by enacting the *patent laws*, Congress intended to confer on patentees the right to use those laws to enforce post-sale restrictions on lawfully purchased articles. This Court has consistently answered no: Such restraints are "beyond the limits of the monopoly secured by the patent act"—*irrespective* of whether they would be prohibited by antitrust or other laws. *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1, 17 (1913).

c. Patentees are not powerless to control the use or sale of their goods. To the contrary, this Court's precedents make clear that patentees, subject to legal regimes governing sales of goods generally, may use *contract law* to enforce such restrictions. And that is as it should be. Such restrictions are a creature of contract and should therefore be enforced under contract law. The Federal Circuit's fundamental error was in holding that such contractual

conditions on the post-sale use of a product can be enforced through the *patent laws*.

d. This Court should also reject the Federal Circuit's reaffirmation of *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), which held that foreign sales place a patented article outside of the first-sale doctrine. The court below believed that *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013)—which rejected a similar rule in the copyright context—is beside the point, because patent law is not *always* the same as copyright law. But the question here is only whether there is any reason to treat exhaustion differently in the patent and copyright contexts. There is not. The common law's longstanding disapproval of restraints on alienation is equally applicable in the patent context and compels the conclusion that the first-sale doctrine applies to patented articles lawfully sold abroad.

ARGUMENT

I. THE DECISION BELOW WILL HARM BUSINESSES AND CONSUMERS

This Court has long acknowledged the centrality of the first-sale doctrine to the free and orderly operation of markets. In *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659 (1895), for example, this Court held that "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place." *Id.* at 666. "The inconvenience and annoyance to the public that an opposite conclusion would occasion," this Court explained, "are too obvious to require illustration."

Id. at 667. In *Bloomer* v. *McQuewan*, 55 U.S. 539, 550 (1852), the Court explained that if a patentee sought to reduce competitors' profits he should do so "in an open and fair competition." And in *Bauer* the Court emphasized that the first-sale doctrine serves to ensure that the patent monopoly "is no grant of a privilege to keep up prices and prevent competition." 229 U.S. at 16.

The decision below guts the clarity provided by the first-sale doctrine. It eliminates the doctrine entirely for patented articles first sold abroad. And it gives patentees unwarranted power to do the same for articles first sold domestically, so long as their chosen restrictions on future alienation are communicated clearly and do not violate any other laws.

In light of the complexity of the modern supply chain, the Federal Circuit's restrictive view of the first-sale doctrine creates enormous complications, uncertainties, and inefficiencies—the ultimate effect of which is higher costs for consumers. As the dissent below observed, the "[p]ost-sale restraints" invited by the majority's decision "would 'cast a cloud of uncertainty over every sale.'" Pet. App. 117a (quoting *Tessera, Inc.* v. *Int'l Trade Comm'n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011)). Such a practical problem is "too serious, too extensive, and too likely to come about for" this Court "to dismiss [it] . . . as insignificant." *Kirtsaeng*, 133 S. Ct. at 1367.

A. The Federal Circuit's Exhaustion Rules Impose Enormous Costs For Manufacturers, Retailers, And Consumers

1. Goods of all kinds—computers, smartphones, automobiles, and even medicines—incorporate

innumerable components made throughout the world. One report tracking iPhone production, for example, identified 785 different part suppliers in 31 countries. See Ian Barker, *The Global Supply Chain Behind the iPhone 6*, http://goo.gl/ehweyR. And the iPhone is not unique: as a general matter, "computer hardware and software contain an incredibly large number of incremental innovations." Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, Executive Summary*, at 6 (Oct. 2003), http://goo.gl/auSnUJ. Even "a given semiconductor product . . . will often embody hundreds if not thousands of 'potentially patentable' technologies," and that is just one part of a consumer device. Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 RAND J. Econ. 101, 110 (2001).

Consider a manufacturer of touch-screen displays that owns patents covering that technology. It sells its displays, outside the United States, to a manufacturer of electronic control systems. The controller manufacturer incorporates the touchscreen displays into its systems overseas and then imports them into the United States. Those systems are, in turn, sold to an appliance manufacturer that incorporates them into the displays and user controls for its appliances. The appliance manufacturer then sells its products to U.S.-based retailers for sale in the United States.

Under the Federal Circuit's exhaustion rules, even though the display manufacturer voluntarily sold its products to the control manufacturer at a price of its choosing, the control manufacturer, the

appliance manufacturer, *and* the U.S. retailer would be subject "to the disruptive impact of the threat of infringement suits." *Kirtsaeng*, 133 S. Ct. at 1365. The same result would follow even if the display manufacturer first sold its wares in the United States but did so with a condition restricting future resale or use.[2]

If the decision below stands, each product developer and manufacturer would therefore face increased pressure to trace to origin the patent rights of every single component it purchases. If it turns out that any individual component was first sold abroad—or even domestically, but subject to a condition on future reuse or resale—the manufacturer may feel compelled to negotiate an appropriate licensing agreement with the component manufacturer (as well as any sub-component manufacturer). And all of this would be *over and above* the standard purchase contract for each component itself.

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[2] Perversely, the Federal Circuit's view that international sales do not exhaust patent rights creates an incentive for U.S. patentees to manufacture and sell their goods abroad. If a patentee manufactures and sells a good within the United States, the sale normally exhausts all patent rights. Even assuming *Mallinckrodt* was correctly decided, the patentee may (under the Federal Circuit's rule) be able to constrain future alienation through a clearly communicated condition at the time of sale. Under *Jazz Photo*, however, the patentee need not even bother to do that if it shifts production and sales overseas. Congress could not possibly have intended the patent laws to create such "an inefficient incentive to shift domestic production abroad." Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 Cardozo L. Rev. 55, 142 n.380 (2001).

Such a regime would inject significant uncertainty into the marketplace. Product developers are not generally concerned with the legal location of where the sale took place, and instead focus on where the patented components they purchase or license will be delivered. Typically, that will be where they manufacture the products that use those components. And, increasingly often, that will be overseas—even though the products are destined for sale in the United States. Thus, under the Federal Circuit's rule, component manufacturers will have no way of knowing what legal regime governs the sale or license of their patented articles.

Further complicating matters, many products are developed subject to worldwide licensing agreements under which a licensee pays royalties on every product it makes that practices a licensor's patents (U.S. or foreign), regardless of where those products are ultimately sold. Under the Federal Circuit's exhaustion rules, products made by that licensee that end up being sold in the United States would exhaust the licensor's patent rights, but those same products, made by the same licensee under the same worldwide licensing agreement, that happen to be sold outside the United States would *not* exhaust such rights.

These concerns are exacerbated by the proliferation of non-practicing entities ("NPEs"), who buy patent rights from inventors that may have once authorized the practice of their patents pursuant to worldwide licenses. See *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) ("An industry has developed in which firms use patents not as a basis for producing and

selling goods but, instead, primarily for obtaining licensing fees."). Because under the decision below foreign sales do not exhaust the patent rights (even when *royalties may have already been paid on them*), NPEs can threaten or sue product manufacturers and their downstream U.S. importers, retailers, and customers, alleging infringement in order to extract *additional* royalties on products used in the United States. Those lawful downstream purchasers, in turn, then seek indemnification from the manufacturer—which, of course, already paid a royalty to the original patent holder upon its first sale abroad. The manufacturer is nevertheless obligated to defend the suit or pay yet another royalty to the NPE. The impact of the lower court's decision is that the patent laws will be used not to promote innovation, but for "the creation of private fortunes for the owners of patents." *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917).

Because supply chains involve dozens if not hundreds of suppliers and sub-manufacturers all around the world, the impracticality of such a limited exhaustion regime is manifest. If product manufacturers and their direct and indirect customers are unable to rely on the authorized first sale of a component as exhausting all patent rights to that component, licensing-compliance costs could be staggering.

And the issue is not simply cost; the Federal Circuit's exhaustion rules also hinder innovation. New products often result from novel ideas regarding combinations of existing components. Creating those new combinations, however, requires confidence that

the patent rights underlying the components have been exhausted by the initial sale. The decision below undermines that confidence.

2. The negative impact of the Federal Circuit's exhaustion rules is also felt by large and small retailers who sell millions of products annually, many of which incorporate individually patented components. Not only will those retailers remain responsible for ensuring that the products they sell are authentic (*i.e.*, not counterfeit or pirated), but they will also face added pressure to determine and verify the patent rights associated with each component in those products, or induce friction in the supply chain through efforts to ameliorate the risk of infringement actions. Those processes—along with the cost of additional licensing fees—impose significant costs on retailers. Those costs are ultimately passed on to consumers in the form of higher prices or reduced access to lower-cost alternatives.

Realistically, moreover, neither the national chain that imports billions of dollars of goods for resale each year, nor the small local shop that purchases its inventory from a distributor, can always know the provenance of every lawfully made good it sells—and particularly those first sold abroad and imported for sale in the United States. Retailers often have no reasonable way to ascertain whether anything about the goods is protected by patent or whether that patent has been exhausted. That is particularly true in cases in which a patented method or component is at best ancillary to the goods that the retailer is selling.

If patentees had the right to prevent the resale or importation of lawfully made goods, the retail industry would have less confidence to buy goods from independent exporters or importers. As noted, to mitigate the risk of such uncertainly, retailers often try to shift liability to their sellers through contractual representations and indemnification provisions. But those protections, too, impose additional costs. The Federal Circuit's exhaustion rules therefore create precisely the burdens that have long concerned this Court. See *Kirtsaeng*, 133 S. Ct. at 1366 (noting the "horribles" associated with limiting exhaustion principles).

3. The damage caused by the decision below is not limited to industry. It causes substantial harm and confusion for consumers as well. As noted, in the modern supply chain manufacturers sell components to product developers, who sell their products to retailers, and then ultimately to consumers. The component manufacturers' initial sale often takes place abroad. The rule adopted by the decision below creates strong incentives for initial component sales to take place in the United States—resulting in fewer goods offered at retail, in fewer retail outlets, at higher prices.

Moreover, the decision below mandates a number of perverse outcomes. Foremost among them is that individual copies of a patented good—be it a Nikon camera purchased by a tourist on vacation in Japan or a Teva sandal purchased by a student studying abroad in Israel—cannot lawfully be brought home, resold, given away, *or even used* in the United States by the purchaser without committing patent infringement.

To be sure, it is often suggested—and was, indeed, argued by Respondent below (Lexmark Panel Br. 54)—that patentees will not bring suit to stop such *de minimis* acts of infringement. But, as this Court observed in *Kirtsaeng*, "a copyright law that can work in practice only if unenforced is not a sound copyright law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely unenforced, would breed disrespect for copyright law itself." 133 S. Ct. at 1366. So too here.

Indeed, if anything, the problem is more pronounced in the patent context. As Justice Ginsburg noted in dissent in *Kirtsaeng*, a number of copyright-specific defenses and exceptions—such as fair use, the so-called "suitcase exception," and specific exemptions for libraries—might have mitigated some of the practical concerns expressed by the Court. *Id.* at 1388-89. Patent law, however, provides no such relief.

B. The Policy Concerns This Court Recognized In *Kirtsaeng* Are Equally Applicable In The Patent Context

The concerns raised here are not new; the Court discussed them at length in *Kirtsaeng*. The Federal Circuit asserted that this Court's treatment was "copyright-specific" and "to a large extent, though not entirely, tied to the distinctive problems of museums, libraries, and booksellers." Pet. App. 75a. But the Court's opinion was not nearly so constrained. To the contrary, the Court *expressly* took account of the very concerns of both technology companies and retailers raised again here. See *Kirtsaeng*, 133 S. Ct.

at 1365 (citing, *inter alia*, Brief for Retail Litigation Center, Inc., *et al.* as *Amici Curiae*).

Indeed, *Kirtsaeng* acknowledged the use of copyrights in common technologies such as "automobiles, microwaves, calculators, mobile phones, tablets, and personal computers"—products plainly subject to patent rights. 133 S. Ct. at 1365. And the Court went on to explain that a rule limiting exhaustion to domestically made items "would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software." *Ibid.* That would also be true with respect to the hundreds of *patented* components of an automobile. Without permission from each of the patentees, "a foreign car owner could not sell his or her used car." *Ibid.*

The decision below asserts that patent law is simply different. Whereas pre-*Kirtsaeng* copyright precedent "was too fractured to give meaningful comfort that . . . practical problems . . . were unlikely to materialize" (Pet. App. 75a), the Federal Circuit claimed, "*Mallinckrodt* has been the governing case law since 1992" (*id.* at 60a), and *Jazz Photo* the "clear rule since 2001" (*id.* at 75a). Yet, the court continued, "we have been given no reliable demonstration of widespread problems not being solved in the marketplace" (*id.* at 60a).

But the patent law is not nearly so settled, nor was the copyright law nearly so unsettled, as the Federal Circuit assumed. To the contrary, district courts have repeatedly raised concerns about the viability of the Federal Circuit's patent-exhaustion precedents. See, *e.g.*, *LG Elecs., Inc.* v. *Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009). As the

dissent noted, so too have commentators. See Pet. App. 114a (citing 12 Phillip A. Areeda & Herbert Hovenkamp, Antitrust Law ¶ 2044, at 300 & 301 n.15 (3d ed. 2012)); see also Pet. Br. 23-24 n.5. And, of course, the United States has consistently asserted (as it does again here) that *Mallinckrodt* and *Jazz Photo* were incorrectly decided. See U.S. Cert. Br., *Impression Prods., Inc.* v. *Lexmark Int'l, Inc.* (No. 15-1189), 2016 WL 5957534; U.S. Br., *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761 (No. 11-796), 2013 WL 137188); U.S. Br., *Quanta*, 553 U.S. 617 (No. 06-937), 2007 WL 3353102.

In contrast, before *Omega S.A.* v. *Costco Wholesale Corp.*, No. 04-05443, 2007 WL 7029734 (C.D. Cal. Feb. 6, 2007), *rev'd*, 541 F.3d 982 (9th Cir. 2008), *aff'd by an equally divided Court*, 562 U.S. 40 (2010)—the precursor to *Kirtsaeng*—a geographic interpretation of copyright exhaustion had been the universal rule in the federal courts for nearly thirty years. See *CBS, Inc.* v. *Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984). Commentators uniformly asserted that view was correct. See, *e.g.*, 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[B][6](b), at 8-178.4 (rev. ed. 2009). And the United States defended it three times in this Court (in *Quality King*, in *Costco*, and again in *Kirtsaeng*). Indeed, before 2010, only a single court had ever even called the prevailing, geographic view of copyright exhaustion into question at all (in a footnote). See *Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 & n.1 (3d Cir. 1988).

Against that backdrop, there is not "considerably more reason to discount predictions" of what might materialize if the decision below is left intact than there was in the copyright context. Pet. App. 75a. And, as the Court noted in *Kirtsaeng*, "the fact that harm has proved limited so far may simply reflect the reluctance of copyright holders so far to assert geographically based resale rights. They may decide differently if the law is clarified in their favor." 133 S. Ct. at 1366. The same goes for patent holders.

In the end, there is no reason to presume that Congress intends for materially different exhaustion regimes to govern copyrights and patents. And there is significant harm in presuming otherwise. As noted, the same products often include both patented and copyrighted elements. See *Kirtsaeng*, 133 S. Ct. at 1365. In practice, parties routinely assert copyright and patent interests in the same product. See, *e.g.*, *Amini Innovation Corp.* v. *Anthony Calif., Inc.*, 439 F.3d 1365 (Fed. Cir. 2006); *Gemmy Indus. Corp.* v. *Chrisha Creations Ltd.*, 452 F.3d 1353 (Fed. Cir. 2006); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000).

Disparate exhaustion rules yield bizarre results in which sales abroad (or at home, subject to restrictions) exhaust some U.S. intellectual property rights but not others. Such a regime would encourage further gamesmanship in the use of intellectual property rights in order to restrict secondary markets that the common law has sought to protect for hundreds of years. This Court should not abide such a result, which would only exacerbate the "inconvenience and annoyance to the public" that

the patent laws seek to prevent. *Keeler*, 157 U.S. at 667.

II. THE DECISION BELOW CONFLICTS WITH THIS COURT'S HOLDINGS THAT POST-SALE RESTRICTIONS IMPERMISSIBLY EXPAND THE PATENT MONOPOLY AND THWART COMPETITION

This Court's precedents make clear that two conditions suffice to invoke the first-sale doctrine: (1) there has been a sale of a patented article, and (2) that sale was authorized by the patentee. If those conditions are met, the patentee "can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights." *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 489 (1926).

That should be the end of the matter. Respondent, however, seeks to do just what the first-sale doctrine forbids: exploit the patent laws to control the use of an article after an authorized sale. The decision below authorizes that end run around the first-sale doctrine—and effects a dramatic expansion of the scope of the patent monopoly—on the basis that a patentee can attach *any* "otherwise-lawful restriction as to post-sale use or resale." Pet. App. 26a. In other words, the majority takes the position that post-sale restrictions can be vindicated through *the patent laws* unless they would run afoul of some *other* source of law, such as antitrust or misuse law. *Id.* at 29a.

But the Federal Circuit has it exactly backwards. In determining the scope of the patent monopoly, a court must do just that: determine what rights

Congress intended to confer upon patentees *through the patent laws*, not what it sought to restrict through other laws. And nothing suggests that Congress intended to expand the patent monopoly to control the downstream use or sale of lawfully purchased articles.

A. The Patent-Exhaustion Doctrine Promotes Competition And Implements Congress's Limitations On The Patent Monopoly

1. The patent system "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989). Consistent with that bargain, this Court has "uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article." *Univis Lens Co.*, 316 U.S. at 251. "[O]nce that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *Ibid.* The first-sale doctrine therefore reflects the fact that the patent law gives patentees "but one royalty"—and no more. *Keeler*, 157 U.S. at 663; see *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013).

The doctrine articulated by the Federal Circuit in *Mallinckrodt*, reaffirmed by the decision below, runs counter to that bedrock principle. As this Court has recently reiterated, the "longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates *all patent rights* to that item," including the right to impose "postsale restrictions on the use of a patented

article." *Quanta*, 553 U.S. at 625 (emphasis added). But that is just what the decision below permits: It allows patentees to impose restrictions on the use or sale of a patented article *after* an authorized sale of that article—and thus after the patentee has already "received his consideration." *Adams* v. *Burke*, 84 U.S. 453, 456 (1873). The Federal Circuit's rule therefore undoes the careful balance crafted by Congress.

2. The patent-exhaustion doctrine has an "impeccable historic pedigree" that antedates the patent laws—and is rooted in principles of free and fair competition. *Kirtsaeng*, 133 S. Ct. at 1363 (2013). As this Court observed in *Kirtsaeng*, Lord Coke explained in the 17th century that the common law "refus[ed] to permit restraints on the alienation of chattels." *Ibid.* Once an owner sells a chattel, "'his whole interest . . . is out of him,'" and restrictions on the resale or disposition of the chattel are "'against Trade and Traffi[c], and bargaining and contracting.'" *Ibid.* (quoting 1 E. Coke, Institutes of the Laws of England § 360, p. 223 (1628)).

Coke therefore emphasized "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods." *Ibid.* And, as this Court has recognized, that very concern articulated by Lord Coke—the need to protect "Trade and Traffi[c]," including robust post-sale markets—explains why "American copyright law has long applied that doctrine." *Kirtsaeng*, 133 S. Ct. at 1365-66.

It also explains why "[f]or over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial

authorized sale of a patented item." *Quanta*, 553 U.S. at 621. After all, "where a common-law principle is well established, . . . courts may take it as given that Congress has legislated with an expectation that the principle will apply except when a statutory purpose to the contrary is evident." *Astoria Fed. Sav. & Loan Ass'n* v. *Solimino*, 501 U.S. 104, 108 (1991) (internal quotation marks omitted). Here, nothing in the patent laws suggest that Congress displaced the longstanding common-law disapproval of restraints on alienation.

To the contrary, "[i]t has long been settled that the patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using, or selling that which he has invented." *Motion Picture Patents*, 243 U.S. at 510. Thus, as this Court observed in applying the patent-exhaustion doctrine in 1917, "restraints upon [a patented article's] further alienation"—such as restrictions on resale price—"have been hateful to the law from Lord Coke's day to ours." *Straus* v. *Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917).

Indeed, the patent-exhaustion rule articulated by this Court (and rejected by the Federal Circuit) "is in accord with the views of Thomas Jefferson," who "served as a member of the first Patent Board" and "drafted the comprehensive Patent Law of 1793." *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 305 U.S. 124, 128 n.1 (1938) (Black, J., dissenting). Specifically, Jefferson suggested that "'the purchaser of the right to use the invention should be free to apply it to *every* purpose of which it is susceptible.'" *Ibid.* (quoting The Writings of Thomas Jefferson,

Vol. VI, H.A. Washington, Editor, p. 372) (emphasis added); cf. *Kirtsaeng*, 133 S. Ct. at 1370-71 (citing Jefferson for the proposition that the Founders did not intend to provide the right to divide markets or charge different prices for the same book).

Providing examples of the free use of invention by a purchaser, Jefferson noted that "a screw for crushing plaster might be employed for crushing corn-cobs," and "a chain pump for raising water might be used for raising wheat." *Ibid.* (quoting The Writings of Thomas Jefferson at p. 181). The decision below, however, would enable a patentee to prohibit such uses through contract—and then bring a *patent infringement* action against Jefferson's hypothetical corncob crusher. The use of the patent laws to enforce such restraints on trade runs afoul of longstanding common-law principles, conflicts with this Court's precedents, and stretches the patent monopoly beyond the breaking point.

B. The Decision Below Wrongly Holds That The Patent Laws Can Be Used To Enforce Any Post-Sale Restriction That Is Not Otherwise Illegal

1. In the decision below, the majority reaffirmed *Mallinckrodt*'s holding that post-sale restrictions on the use or sale of patented articles are *necessarily* enforceable through the patent laws, so long as they do not run afoul of antitrust or other laws. That holding represents a profound misinterpretation of this Court's precedents and conflates the question whether the *patent laws* authorize a sale or use restriction with the question whether the *antitrust laws* prohibit it.

Mallinckrodt addressed whether a "single use only" restriction could be enforced through an infringement action. In answering that question, the Federal Circuit addressed the so-called "*Bauer* trilogy," in which this Court held that various restraints could not be enforced through the patent laws. *Mallinckrodt*, 976 F.2d at 703 (citing *Bauer*, *supra*). According to *Mallinckrodt*, however (and according to the majority below, see Pet. App. 27a-30a), the *Bauer* trilogy merely "established that *price-fixing and tying* restrictions accompanying the sale of patented goods were *per se* illegal"—and therefore said nothing about restrictions accompanying the sale of patented goods generally. *Mallinckrodt*, 976 F.2d at 704 (emphasis added).

But that is not what *Bauer* and its progeny held. In *Bauer*, the assignee of a patent on a chemical established a minimum resale price for distributors of the chemical. The question presented was whether a distributer's resale of the chemical at a lower price "constitute[d] *infringement* of appellants' patent," *Bauer*, 229 U.S. at 9 (emphasis added)—not, as the Federal Circuit assumed, whether it was *otherwise legal*. And this Court squarely held that such post-sale restrictions are *not* within the scope of the patent monopoly: Once an article is sold, it "'passes without the limit of the monopoly" and "is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.'" *Id.* at 18 (quoting *Adams*, 84 U.S. at 456).

In reaching that conclusion, this Court cautioned that "care should be taken not to extend by judicial constriction the rights and privileges which it was

the purpose of Congress to bestow." *Id.* at 10. Although "it was the intention of Congress to secure an exclusive right to sell," this Court explained, there "is no grant of a privilege to keep up prices and prevent competition." *Id.* at 17. Accordingly, this Court held, the post-sale restriction was "beyond the limits of the monopoly secured by the patent act." *Ibid.*

This Court reached the same conclusion in *Straus* v. *Victor Talking Machine Co.*, the second case in the *Bauer* trilogy. There, the patentee attached a notice to its phonographic machines setting a minimum transfer price, and then brought an infringement action to enforce that restriction. The question presented was whether the price restriction constituted "a means of securing to the owner of the patent that exclusive right to use its invention which is *granted through the patent law*, or whether, under color of such a purpose, it is a device unlawfully resorted to in an effort to profitably extend the scope of the patent at the expense of the general public." *Straus*, 243 U.S. at 497-498 (emphasis added).

Once again, then, the question was not (as the Federal Circuit would have it) whether the restriction was illegal under antitrust or other laws, but whether it impermissibly expanded the scope of the *patent laws* beyond the balance reached by Congress. And, once again, this Court held that such post-sale restrictions did not fall "within the grant of the patent laws." *Id.* at 501. Such restrictions, this Court emphasized, are "obnoxious to the public interest" and would "work great and widespread injustice to innocent purchasers." *Ibid.*

The same goes for the third case in the trilogy, *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U.S. 8 (1918), which also involved resale price restrictions. And again the question this Court addressed was whether "the right to enforce [the restriction was] *secured by the patent law*"—that is, "whether the monopoly of the patent law can be extended beyond the scope of that law or, in other words, applied to articles after they have gone beyond its reach." *Id.* at 20, 26 (emphasis added).

This Court's answer was no. *Id.* at 27. In reaching that conclusion, this Court explained that "one who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied." *Id.* at 25. Thus, contrary to the Federal Circuit's interpretation in *Mallinckrodt* (and in the decision below), all three cases in the *Bauer* trilogy focused squarely on the scope of the patent laws—and held that post-sale restraints on the use of patented goods cannot be enforced through those laws.

Mallinckrodt also addressed *Motion Picture Patents*, which involved a patentee's attempt to restrict the use of a patented movie projector to films leased by the patentee. The Federal Circuit characterized this Court's decision in that case as holding that the tie-in was *per se* illegal. *Mallinckrodt*, 976 F.2d at 704. But, once again, this Court made abundantly clear that its decision in *Motion Picture Patents* was not restricted to the question whether the tying arrangement was permissible under laws

other than the patent laws. Indeed, the Court explained that "[t]he extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract . . . is a question outside the patent law, and with it we are not here concerned." 243 U.S. at 509. Rather, the task for this Court was to "determine the meaning of Congress when" it provided a patentee the exclusive right to "use" its invention. *Ibid.*

In determining Congress's meaning, this Court observed that it "has consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents, but is 'to promote the progress of science and the useful arts.'" *Id.* at 511 (quoting U.S. Const. art. I, § 8). This Court therefore rejected the attempted post-sale restriction at issue—not because the restriction ran afoul of the general laws, but rather because it was "wholly without the scope and purpose of our *patent laws*, and because, if sustained," it would promote "private fortunes" rather than scientific progress. *Id.* at 519 (emphasis added).

In sum, this Court's precedents stand for the proposition that the patent laws cannot be expanded to control post-sale conduct, *irrespective* of whether such conduct is permitted by the antitrust laws. Therefore, the fact that, as the decision below observed, "Impression has not claimed that the restrictions at issue violate antitrust, patent-misuse, or similar constraints," Pet. App. 61a, is irrelevant to the proper resolution of this case.

2. That is not to say that Congress's objective of promoting free and fair competition is irrelevant to

the interpretation of the patent laws. To the contrary, as noted above, the common law's disapproval of restraints on alienation is rooted in a concern that buyers of goods be free to compete with each other. This Court's precedents likewise make clear that the patent-exhaustion doctrine, in particular, reflects Congress's desire to balance the goals of fostering innovation and promoting competition. Given those purposes, it would be exceedingly odd for Congress to have authorized patentees to use the patent laws to enforce price-fixing, tying, and territorial-allocation arrangements that were considered anticompetitive and illegal *per se* when Congress amended the patent laws in 1952.

The decision below, however, ignores Congress's goal of promoting competition and makes much of the fact that such vertical restraints are now "judged by a rule of reason." Pet. App. 61a. According to the majority, that fact—that post-sale restraints are no longer unlawful *per se* under the antitrust laws—supports its holding that *any* post-sale restrictions are enforceable through the *patent laws*, unless otherwise illegal. *Id.* at 62a-63a.

But it is irrelevant whether, for antitrust purposes, such restraints are considered *per se* illegal or judged according to a rule of reason. Either way, such restraints are subject to scrutiny. As Justice Breyer noted at oral argument in *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135, 138 (1998), a case involving copyright law's first-sale doctrine, "[s]ometimes you can" impose such restrictions, and "sometimes you can't." *Quality King* Oral Argument Tr. 30. Thus, for "vertically imposed territorial restrictions" to be

enforceable through copyright law, Justice Breyer suggested, "you [would] have to have a fairly clear expression of congressional intent" to authorize such practices. *Id.* at 30-31.

That is equally true with respect to restraints on the sale or use of patented articles. And, as shown above, Congress did not clearly express an intent to permit such restraints after the lawful sale of patented articles. As a result, consistent with congressional intent, this Court has consistently rejected attempts to enforce post-sale restrictions on the use or sale of patented articles.

Moreover, the implication of the majority's reasoning is that the *Bauer* trilogy is itself no longer good law. After all, the Federal Circuit's position is that those cases turned exclusively on the fact that tie-ins and price fixing were *per se* illegal. Pet. App. 27a. But, as the majority noted (*id.* at 57a-58a), that is no longer the case. The decision below, if allowed to stand, would therefore effectively overturn *Bauer* and its progeny in one fell swoop.

3. The Federal Circuit nevertheless held that its "conditional-sale doctrine" is compelled by the Patent Act, which confers the "'right to exclude,' which 'may be waived in whole or in part.'" Pet. App. 27a (quoting *Mallinckrodt*, 976 F.2d at 703). But see Pet. Br. 33-35 (explaining the Federal Circuit's misconstruction of decisions of this Court discussing "conditional" sales). So, the reasoning goes, because a patentee can exclude *all* uses or sales of a patented article, it can impose *some* restrictions on the use or sale of that article, even after an authorized sale.

But this Court has already rejected that greater-includes-the-lesser argument—*i.e.*, the notion that, "since the patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it." *Motion Picture Patents*, 243 U.S. at 514. It did so on the ground that the argument conflates "the rights which are given to the inventor by the patent law," and those "which he may create for himself by private contract." *Ibid.* That is precisely the mistake made by the Federal Circuit in the decision below.

The decision below also places great weight on the fact that the Patent Act confers "separate rights to exclude others from making, using, selling, etc." Pet. App. 58a. According to the court of appeals, that unique aspect of patent law means that the first-sale doctrine (at least in the context of patent law) should *not* be subject to the longstanding common-law rule that authorized purchasers of goods are free to dispose of those goods however they wish. Pet. App. 56a-59a. As noted above, however, in *Straus* this Court expressly invoked the common law's disapproval of restraints on alienation to support the first-sale doctrine *in the patent context*. 243 U.S. at 501.

This Court has also expressly rejected the Federal Circuit's "bundle of sticks" argument. In *Adams*, for example, this Court recognized that, as the decision below notes, the "right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee." *Adams*, 84 U.S. at 456. It nevertheless

held that that fact does *not* give the patentee the right to impose restrictions on post-sale uses or sales: Once a patentee sells a patented article, this Court explained, he "parts with the right to restrict that use." *Ibid.* The fact that the patent law grants those rights "separately," Pet. App. 57a, does nothing to alter that rule.

C. Any Ability Patentees Retain To Restrict The Use Of Patented Articles Is Grounded In Non-Patent Law

The decision below presumes that, as owners of a property right, patentees must be free to impose conditions on the subsequent use or sale of patented products. The decision below also suggests that patentees need a mechanism to segment markets for their products, domestically or internationally, to account for real-world differences among markets and to prevent arbitrage. See Pet. App. 78a-79a.

That may be true, but, if so, those rights are not a function of the *patent law*, enforceable through patent infringement actions. Rather, this Court has made clear that such restrictions on post-sale use are the function of—and are enforceable only through—*contract law*:

> Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.

Keeler, 157 U.S. at 666; see *Quanta*, 553 U.S. at 637 n.7.

What was "obvious" to this Court in 1895 was no longer obvious to the Federal Circuit in 2016. By allowing patentees to use the patent laws to enforce contractual limitations on post-sale uses, the decision below impermissibly extends the scope of the patent monopoly and undermines the bargain that lies at the core of federal patent law.

Such an extension of the patent monopoly is in any event unnecessary to achieve the goals the Federal Circuit sought to promote through the decision below, since patentees can rely on tools other than the patent law to control the use and sale of patented articles. One such tool, of course, is contract law. Indeed, this Court's precedents make clear that, in some circumstances, patentees can place conditions on the conduct of licensees that it cannot place on authorized purchasers.

The decision below rejects the long-established distinction between purchasers and licensees. But that "distinction is a plain one" that has long been recognized by this Court. *Bloomer*, 55 U.S. at 549. Thus, in *General Electric*, the Court reaffirmed that, where a patentee makes an article "and *sells* it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase." 272 U.S. at 489 (emphasis added). "But the question is a different one which arises when we consider what a patentee who grants a *license* to one to make and vend the patented article may do in limiting the *licensee* in the exercise of the right to sell." *Id.* at 489-490 (emphasis added).

This Court's longstanding distinction between sales and licenses is an eminently reasonable one. After all, the first-sale doctrine is just that: generally it applies only after the *sale* of a "particular article." *Bowman*, 133 S. Ct. at 1766 (internal quotation marks omitted). When a patentee himself manufactures and sells an article, there is of course a sale, and that sale is, by definition, authorized. It therefore "puts the article beyond the reach of the monopoly which that patent confers." *Univis*, 316 U.S. at 252.

When a patentee licenses another entity to make and then sell an article, however, there is no sale (yet). The patented article therefore remains within the scope of the patent monopoly—and the patentee is therefore free to impose conditions on the licensee's use or sale of the item covered by the patent. In that situation, the first-sale doctrine is triggered only when the licensee—who stands in the shoes of the patentee—first sells the patented item with the authorization of the patentee. Cf. *Kirtsaeng*, 133 S. Ct. at 1361 (noting that the lessee of a copy will not enjoy the benefit of the copyright first-sale doctrine, but that the purchaser of a copy will).

The fundamental error of the decision below is therefore not that it authorized restrictions on the post-sale use or sale of patented goods. It is that the court of appeals held that *contractual* conditions on the post-sale use of a product can be enforced through the *patent laws*. That distinction matters. Successful patent infringement claims can result in treble damages, attorney's fees, and other remedies that can have disastrous consequences for

unsuspecting downstream businesses and consumers. See 35 U.S.C. §§ 284, 285. This Court should reject the Federal Circuit's dramatic expansion of the patent laws to enforce contractual rights.

D. *Kirtsaeng*'s International-Exhaustion Rule Applies With Equal Force In The Patent Context

In *Kirtsaeng*, this Court held that the first-sale doctrine "applies to copies of a copyrighted work lawfully made abroad." 133 S. Ct. at 1355-56. As noted, in reaching that conclusion, this Court observed that the doctrine was rooted in the common law's longstanding hostility to restraints on the alienation of goods. *Id.* at 1363 (citing Lord Coke). According to the decision below, however, *Kirtsaeng* is irrelevant here because "a conclusion about copyright law does not automatically carry over to patent law." Pet. App. 69a (citing *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 345-46 (1908)). The Federal Circuit therefore reaffirmed its decision in *Jazz Photo*, which held that the first-sale doctrine does not apply to foreign sales of patented articles.

But the question isn't whether conclusions about copyright law *always* compel similar conclusions about patent law. Rather, the question is whether there is any reason to treat copyright law and patent law differently *in a specific context*. And the opinion below provides no valid reason why patent law should diverge from copyright law with respect to international exhaustion. If anything, the chattels addressed by Lord Coke in the 17th century (and subject to the common-law first-sale doctrine) are *more* like patented tools such as printer cartridges

than copyrighted books or recordings. See *Straus*, 243 U.S. at 501 (referencing in the patent context Lord Coke's disapproval of restraints on alienation).

The court of appeals made much of the fact that the Copyright Act contains a statutory first-sale doctrine, while the Patent Law does not. But that distinction cuts the other way. In *Kirtsaeng*, this Court determined whether the Copyright Act's first-sale provision modified the doctrine that *already* existed at common law. Here however, there is no statute that expressly delineates the scope of the first-sale doctrine in the patent-law context. Thus, the common-law doctrines relied on by this Court in *Kirtsaeng* apply with even greater force here. And, as the Court explained in *Kirtsaeng*, the "common law [first-sale] doctrine makes no geographic distinctions." 133 S. Ct. at 1363.

The opinion below also attempts to distinguish patent law from copyright law on the ground that the Patent Act—unlike the Copyright Act—confers "broad rights to control sale and use," and grants those various rights "separately as to making, selling, using, etc." Pet. App. 57a; *id.* at 58a. But the Copyright Act *also* grants separate "exclusive rights," including the right to "reproduce" a copyrighted work; "prepare derivative works"; "distribute copies" of a copyrighted work by sale, rental, or lease; and "perform" or "display" copyrighted works publicly. 17 U.S.C. § 106. Under the majority opinion's own framework, then, the same exhaustion rule should apply to authorized sales in the copyright and patent contexts. And that makes good sense given that, as noted above, many products ranging

from automobiles to personal computers are subject to both copyright and patent protection.

In any event, this Court has already made clear that copyright law and patent law should be treated similarly *with respect to the very issue presented here*—exhaustion based on the sale of a product. In *Bauer*, the Court addressed whether a patentee may limit the price at which future sales of a patented article may be made (after an authorized sale of that article)—a question addressed in the copyright context in *Bobbs-Merrill*. This Court acknowledged that the copyright statute differs from the patent statute, but explained that there nevertheless "is a strong similarity between and identity of purpose in the two statutes"—specifically, that both statutes provide the exclusive right to "vend" articles (or "sell" under the current statutes). *Bauer*, 229 U.S. at 13. Thus, the Court explained, "[t]he sale of a patented article is not essentially different from the sale of a book." *Ibid.*

So too here: The decision below provides no valid reason why the effect of a foreign sale of a patented article (say, the sale of a Nikon camera in Japan) should be treated differently, for purposes of exhaustion, from the foreign sale of a novel by Herzog. As long as the foreign sale was authorized, it exhausts the patentee's right to restrict the purchaser's use or sale of the article. In other words, the same two-step inquiry that applies in the domestic patent exhaustion context also applies in the international exhaustion context: Was there a sale of a patented article, and was it authorized? If so, the patented article "passes to the hands of the

purchaser" and is "no longer within the limits of the monopoly." *Bloomer*, 55 U.S. at 549.

CONCLUSION

The judgment of the Court of Appeals for the Federal Circuit should be reversed.

Respectfully submitted.

ROY T. ENGLERT, JR.
ARIEL N. LAVINBUK
Counsel of Record
DANIEL N. LERMAN
ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP
1801 K Street, NW
Suite 411L
Washington, D.C. 20006
(202) 775-4500
alavinbuk@robbinsrussell.com

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In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR DOLBY LABORATORIES, INC. AS AMICUS CURIAE IN SUPPORT OF RESPONDENT

GARRARD R. BEENEY
Counsel of Record
ADAM R. BREBNER
ANGELA CHANG
ALFRED B. JENSEN
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, NY 10004
(212) 558-4000
beeneyg@sullcrom.com

Counsel for Amicus Curiae
Dolby Laboratories, Inc.

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BRIEF FOR DOLBY LABORATORIES, INC. AS AMICUS CURIAE SUPPORTING RESPONDENT

INTEREST OF AMICUS CURIAE

Since its founding in 1965, Dolby Laboratories, Inc. ("Dolby Labs") has dedicated itself to research and innovations that have revolutionized consumers' enjoyment of audio and audio-visual entertainment. Among the many innovations and technologies Dolby Labs has developed are noise reduction systems and methods employed by the recording and cinema industries, including surround sound technology used in cinema and home entertainment systems. Most recently, Dolby Labs has developed Dolby Vision™, a pioneering imaging technology for home and cinema applications. Dolby Labs focuses on the development of cutting-edge technology for audio/video storage, delivery and playback, and creates audio/video systems that are incorporated into products worldwide. As a result of its cutting-edge inventions, Dolby Labs has been awarded and owns numerous patents.[1]

Dolby Labs widely licenses its unique technology to hundreds of companies around the globe, including through industry-wide patent pools, to provide the solutions, services and support these licensees use to create engaging products and content and premium

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[1] Pursuant to Rule 37.6, Dolby Labs affirms that no counsel for a party authored this brief in whole or in part, and that no person other than amicus or its counsel contributed any money to fund its preparation or submission. All parties have consented to the filing of this amicus brief.

audio/visual experiences for consumers. As a developer and licensor of innovative technology, Dolby Labs has a strong interest in the correct and consistent application of the patent laws that allow it and others to innovate and achieve fair value for their investment in research and development.

SUMMARY OF ARGUMENT

I. The Constitution provides Congress the power to "promote the progress of science and useful arts," U.S. Const. art. I, § 8, cl. 8, and to that end Congress enacted the Patent Act, which provides inventors who are granted patents exclusive rights to make, use, sell or import their inventions, or to license others to do so, for a limited time. See 35 U.S.C. § 154(a). Nothing in the Patent Act requires a patentee to license its invention to others, and there is no statutory requirement that a license, if granted, must authorize the licensee to perform every act within the patent grant. The doctrine of patent exhaustion is not to the contrary. Put simply, patent exhaustion means that once a patentee has authorized others to perform all the exclusive rights granted to the patentee, the patentee cannot thereafter seek to control the use of the patented article within the scope of the authorization that has been granted. On the other hand, patentees and licensees are free to define the scope of their licenses within the scope of the patent. Indeed, some licensees may not require each of the freedoms to make, use and/or sell, and may not wish to pay for rights they do not need. Rights never granted are not authorized and cannot be subject to exhaustion. Hence, a lawful restriction on the scope of a license or limited authorization in a sale or license grant should be upheld.

To prevent inefficiencies, patentees and licensees should not be forced to include in a transaction—and, it follows, in the price—rights neither party wishes to have conveyed. Numerous patentees use the current patent exhaustion framework to tailor their licenses in ways that are beneficial to innovation and consumer choice. Requiring patentees to license all rights or none at all through application of a rigid exhaustion rule, or requiring licensees to pay for the value of all rights or receive none at all, will result in less efficient licensing and less innovation.

II. Similarly, the Court should not overrule the long-standing rule that a foreign sale does not exhaust U.S. patent rights. The court of appeals' holding is fully consistent with the territorial limits of U.S. patent law, U.S. patent policy and concerns regarding patent enforcement in foreign jurisdictions. *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which addressed the statutory first-sale rule applicable to copyrighted works, is not analogous and does not call for a different outcome. Rather, maintaining international exhaustion encourages innovation by allowing patent holders to price patented technology according to the country of sale. Patentees can always opt-in to international exhaustion through contract when appropriate—indeed, many already do.

ARGUMENT

I. THE COURT SHOULD UPHOLD THE RIGHT OF PATENT HOLDERS TO GRANT LIMITED AUTHORIZATIONS TO LICENSEES AND PURCHASERS.

A. This Court Has Consistently Upheld the Right of Patentees to Grant Limited Authorizations and Its Decision in *Quanta* Did Not Change that Rule.

1. This Court, for nearly 150 years, has expressly affirmed patent holders' ability to license or authorize less than the full set of rights provided to patentees under the patent grant. See *Gen. Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 175 (*GTP I*), *aff'd on reh'g*, 305 U.S. 124, 126 (1938) (*GTP II*) (holding that "where a patented invention is applicable to different uses, the owner of the patent may legally restrict a licensee to a particular field and exclude him from others"); *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 489 (1926) (noting a patentee's right to grant limited licenses and impose "any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure"); *E. Bement & Sons* v. *Nat'l Harrow Co.*, 186 U.S. 70, 91 (1902) ("[T]he rule is, with few exceptions, that any conditions which are not in their very nature illegal . . . , imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts."); *Mitchell* v. *Hawley*, 83 U.S. 544, 547-50 (1872); *Providence Rubber Co.* v. *Goodyear*, 76 U.S. (9 Wall.) 788, 799-800 (1870).

In *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617 (2008), the Court did not disturb the

principles set forth in the foregoing decisions. The Court had no occasion to address post-sale restrictions on use because the sales at issue in *Quanta* imposed no such restrictions. *Id.* at 636 ("Nothing in the License Agreement restricts Intel's right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts.").

While Petitioner does not dispute that an unauthorized sale by a licensee cannot give rise to exhaustion under the rule in *General Talking Pictures*, Petitioner argues that the holding does not permit any "post-sale" restrictions on use. Pet. Br. 40. That distinction makes no sense: if a patentee may in the proper exercise of its rights limit which sales may be "authorized" by a licensee based on a product's intended use, the same patentee should be able to make a sale in which the authorized uses are limited. As an economic and practical matter a sale and a license are the same. See Glen O. Robinson, *Personal Property Servitudes*, 71 U. Chi. L. Rev. 1449, 1469 (2004) (lauding the Federal Circuit's "elimination of the formalistic distinction between sale and licensing" in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992)). A contrary rule merely adds unnecessary transactional complication, such as patentees dividing their product sales and licensing business to accomplish the same ends.

2. The reason this Court, the court of appeals and the district courts have consistently upheld contractual limitations is grounded in the basic policy objective of patent law—appropriately rewarding inventors for their development of the useful arts through the grant of time-limited periods during which others may not practice an invention absent authorization. It follows from a patentee's exclusive rights that a patentee

may choose to make or not make, use or not use, and sell or not sell embodiments of the patent, and may, similarly, limit the forms such embodiments may take or the fields in which they may be used by others. See *E. Bement & Sons*, 186 U.S. at 90-91. Likewise, the patentee may authorize others to do anything the patentee could do through a license, and may limit that license just as a patentee may limit its own activities. *GTP I*, 304 U.S. at 181 ("Patent owners may grant licenses extending to all uses or limited to use in a defined field."); *cf.* 35 U.S.C. § 271(d)(4). And, as the Federal Circuit noted in *Princo Corp.* v. *International Trade Commission*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) (en banc), with a "conditional sale or license . . . it is more reasonable to infer that [the] negotiated price reflects only the value of the 'use' rights conferred by the patentee." In other words, to reflect economic reality the rights expressly granted for an agreed price should determine whether such rights have been "exhausted."

B. The Court of Appeals' Ruling Is Further Supported by the Goals of the Patent Act.

1. Upholding the ruling below is consistent with the objectives of patent law, including encouraging licensing and the free flow of patented goods. Petitioner and its amici raise the common-law rule against restraints on alienation as a justification for broadening the scope of the patent exhaustion doctrine to override conditions or restrictions agreed to in license contracts. See Pet. Br. 13; see also, *e.g.*, Br. Intellectual Prop. Professors and Am. Antitrust Inst. in Support of Pet. 3-7. This attempt to circumscribe patentees' rights is based on a series of misapprehensions

about how transactions involving patent rights occur in the real world.

As Congress has made clear, patent law gives patent holders a time-limited monopoly over their inventions, including the right to "refuse[] to license or use *any* rights to the patent." 35 U.S.C. § 271(d)(4) (emphasis added). In contrast, the putative concern over restraints is based on a speculative assumption that has no basis in the facts of this case. As set out in the Federal Circuit's opinion, Lexmark chooses to sell its patented printer cartridges as *either* single-use or multi-use at different price points with unambiguous terms alerting purchasers as to the authorized use. Pet. App. 10a-11a; see Pet. Br. 3-4 (describing both types of Lexmark cartridges).

There is no evidence of any consumer confusion or that any purchasers believed the single-use cartridges at issue were, in fact, sold as refillable multi-use cartridges; customers were able to make informed choices and pay only for what they required. Consequently, there is no reason to limit the freedom to contract of both Lexmark *and* consumers to require that Lexmark sell only multi-use cartridges as a matter of law. Removing end-user choice in the guise of end-user protection would be perverse and harmful.

2. More broadly, using patent exhaustion as a blunt tool to provide transactional certainty is unnecessary. The holdings of *General Talking Pictures* and the Federal Circuit below do not weaken transaction certainty because the patent holder or licensee must, at a minimum, provide adequate notice of any limitations on the patentee's authorization to the purchaser. See Pet. App. 60a (describing "the specific scenario we are addressing today" as one in which "the accused infringer had adequate notice at the time of purchase"

of "a single-use/no-resale restriction"); *Hewlett-Packard Co.* v. *Repeat-O-Type Stencil Mfg. Co.*, 123 F.3d 1445, 1453 (Fed. Cir. 1997) ("[A] seller's intent, unless embodied in an enforceable contract, does not create a limitation on the right of a purchaser to use, sell, or modify a patented product."); *Mallinckrodt*, 976 F.2d at 701, 709; see also Mark R. Patterson, *Must Licenses Be Contracts? Consent and Notice in Intellectual Property*, 40 Fla. St. U. L. Rev. 105, 116 (2012) (noting licensing and sales restrictions on patented goods generally must meet requirements of contract law to be enforceable). Thus, to the extent that the patent exhaustion doctrine is intended to protect consumers and take products that have been purchased for use in the ordinary pursuits of life beyond the control of the patent holder, contract law and the requirement of adequate notice are sufficient to achieve that goal.

The danger of end users purchasing a product sold outside the permissible scope allowed under a license from an unscrupulous infringing seller are, of course, similar to the risks inherent in any purchase of a potentially patented article, and are overstated by Petitioner. See Pet. App. 60a. To the extent that issue requires a consumer protection remedy, the patent exhaustion doctrine is an overly blunt tool that would neither fully address the issue nor adequately account for countervailing concerns. See Innovation Act, H.R. 9, 114th Cong. § 5 (2015) (proposing a customer-suit exception that provides certain actions against a customer may be stayed so long as the customer agrees to be bound by the results of the suit against the manufacturer).

3. Further, overruling the conditional sales rule may negatively impact technology developers' ability

to contract with various parties in a production chain and drastically alter existing licensing practices and expectations. In today's environment of ubiquitous technology, patented inventions often derive their commercial value from a combination of complementary factors, including "manufacturing and distribution facilities, workforces, advertising and other items of intellectual property." Simone A. Rose, *Patent "Monopolyphobia": A Means of Extinguishing the Fountainhead?*, 49 Case W. Res. L. Rev. 509, 518 (1999). The monetary value attached to different patent rights by various participants in the production chain may diverge considerably, and it will not be the optimal solution in every case that a single link in the production chain should bear the entire cost of all rights granted by a patent.

To the contrary, and particularly in sophisticated high-technology products involving multiple actors producing components and inputs, the ability of patentees and their licensees to appropriately divide patent rights among different actors in the production chain so that each pays a proportionate royalty commensurate with the value each actor receives—instead of a total royalty charged to only one party—can be efficient and ensure that no one party in the production process bears the entire cost. See Anne Layne-Farrar, *An Economic Defense of Flexibility in IPR Licensing: Contracting Around First Sale in Multilevel Production Settings*, 51 Santa Clara L. Rev. 1149, 1176 (2011). Economic efficiencies can be achieved by permitting the market to determine pricing based on the value each participant derives from the specific patent rights. *Id.*; see *Princo*, 616 F.3d at 1328. On the other hand, using patent exhaustion as a policy tool to *require* that patent licenses take only

one form—a full grant exhausting all rights—will necessarily lead to inefficiencies and limit market solutions and choices.

Additionally, enabling patent holders and licensees to "divide" licensing fees among various users of the rights inherent in the patent grant can help ensure that technology developers are fairly rewarded for their investment by reducing underreporting and increasing transparency and fairness in licensing. Layne-Farrar, *An Economic Defense of Flexibility*, *supra*, at 1164. In particular, when patent holders can divide licensing fees among users, individual fees become lower, providing less incentive for licensees to underreport. *Id.* at 1166. Patent holders can also choose the point or points in the production chain whose sales are most accurately tracked, thereby increasing transparency and fairness. *Id.* at 1164-65.

In light of these economic realities, numerous "real world" patentees and licensees recognize the efficiencies in limited licenses and have contractually agreed to limited patent licenses based, in part, on the *General Talking Pictures* and *Malinckrodt* rule. For example, the present amicus, Dolby Labs, participates in a number of industry-wide standard licensing programs offered through patent pooling. One of these, the AVC/H.264 video codec pool offered by MPEG LA, LLC ("MPEG LA"), provides licenses to the patent portfolio in two ways. MPEG LA first licenses the manufacture and sale of products that encode and decode video using the patented codec. MPEG LA, *AVC Patent Portfolio License Briefing* 8 (2016), http://www.mpegla.com/main/programs/AVC/Documents/avcweb.pdf. This license includes the right for end users to use purchased products in non-commercial contexts. MPEG LA also separately li-

censes others for commercial contexts. *Id.* This allows MPEG LA to charge a lower total royalty to those licensees who obtain lower remuneration from use of the licensed technology. This license structure allows MPEG LA to apportion "reasonable royalties . . . throughout the AVC/H.264 value chain" in a way that "align[s] with the real-world flow of AVC/H.264 commerce." *AVC/H.264 Introduction*, MPEG LA, http://www.mpegla.com/main/programs/AVC/Pages/Intro.aspx. More than 1400 licensees have taken an MPEG LA license, reflecting the practice and logic of allowing licensees to pay only for what they need and use. *AVC/H.264 Licensees*, MPEG LA, http://www.mpegla.com/main/programs/AVC/Pages/Licensees.aspx. This Court should maintain the current flexibility in the law and not disturb common industry practice, which would increase transactional costs and, ultimately, costs to consumers.

II. THE COURT SHOULD UPHOLD THE COURT OF APPEALS' RULING "THAT THERE IS NO LEGAL RULE THAT U.S. [PATENT] RIGHTS ARE WAIVED . . . SIMPLY BY VIRTUE OF A FOREIGN SALE."

A. Patent Law Is Territorial and Should Not Be Subject to a Rule of International Exhaustion.

1. Patent law is territorial in nature. See 35 U.S.C. § 154(a)(1) (patent grants exclusive rights "throughout the United States"); *id.* § 271(a) (defining infringement based on conduct "within the United States" or importation "into the United States"). Thus, "[t]he presumption that United States law governs domestically but does not rule the world applies

with particular force in patent law." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 454-55 (2007).

The inherently territorial nature of U.S. patent law mandated the ruling below, in which the court of appeals adhered to its prior conclusion "that there is no legal rule that U.S. [patent] rights are waived, either conclusively or presumptively, simply by virtue of a foreign sale." Pet. App. 64a (citing *Jazz Photo Corp.* v. *Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001)).

This Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which addressed the statutory first-sale doctrine under the Copyright Act, does not alter the rule that U.S. patent law "does not rule the world" or suggest that U.S. patents should be exhausted by foreign sales without authorization of the patentee. To the contrary, because U.S. patents, like patents in foreign jurisdictions, are creations of the domestic government, the exclusivity they provide is limited to the territorial purview of the granting government. (Similarly, rights granted under foreign patents cannot affect or abridge rights granted by U.S. patents.) Such inherently domestic rights cannot be exhausted by foreign sales that do not purport to grant any authorization to make, use or sell in the United States or import into the United States.

2. In addition to the textual differences between domestic copyright and patent laws, there also are significant differences in the international regimes that exist for protecting copyrighted works and patents that militate in favor of preserving the rule against extraterritorial exhaustion in the patent context. Although there are some similarities in national patent laws, differences remain, and inventions patentable in one nation may not be protected in another

or may receive a different level of protection. Moreover, a significant and complex system exists to allow a patent applicant to select those nations in which it seeks to protect its innovations. The patchwork system of international patent protection stands in stark contrast to the long-standing international regime for copyright in which the same "work," as opposed to potentially different patent claims, defines the scope of protection.

The international community has attempted to harmonize national patent laws but with far less success than in the copyright field, and for good reasons. The Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"), a product of the World Trade Organization, is the leading agreement on international patent protection, and requires each WTO member's national laws to provide certain minimum substantive patent rights. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 (1994) [hereinafter TRIPS]; see *Voda* v. *Cordis Corp.*, 476 F.3d 887, 899 (Fed. Cir. 2007) (discussing TRIPS). Unlike the global protection afforded to copyrighted works under the Berne Convention for the Protection of Artistic and Literary Works, Sept. 9, 1886, S. Treaty Doc. No. 99-27, there is no global system of protecting patented inventions. See *How Can Patents Be Obtained Worldwide?*, Question addressed in *Frequently Asked Questions: Patents*, World Intellectual Property Organization, http://www.wipo.int/patents/en/faq_patents.html ("At present, you cannot obtain a universal 'world patent' or 'international patent[.'] Patents are territorial rights."). Inventors must apply for patent protection

in the various countries and regions where they seek to preserve exclusivity over their inventions. See *Voda*, 476 F.3d at 899 ("[N]othing in the [Patent Cooperation Treaty] or [TRIPS] contemplates or allows one jurisdiction to adjudicate patents of another.")

Moreover, there remain great divides on the substantive aspects of national patent laws, such as patentable subject matter, prior art, novelty, and non-obviousness. See, *e.g.*, David J. Kappos, *Patent Law Harmonization: The Time Is Now*, Landslide, July/August 2011, at 16, 17; Margaret A. Boulware *et al.*, *An Overview of Intellectual Property Rights Abroad*, 16 Hous. J. Int'l L. 441, 450 (1994) (noting some utility model patents and industrial design patents available in foreign countries need only be novel); *Procedures for Obtaining a Patent Right*, Japan Patent Office, http://www.jpo.go.jp/cgi/linke.cgi?url=/tetuzuki_e/t_gaiyo_e/pa_right.htm (substantive examination of patentability includes determination of whether "the claimed invention is liable to contravene public order and morality"). Indeed, it was only recently with the passage of the Leahy–Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011), that the United States harmonized such matters as the "first-to-file" principle with general practice in the rest of the world. See *Madstad Eng'g, Inc.* v. *U.S. Patent & Trademark Office*, 756 F.3d 1366, 1368 (Fed. Cir. 2014) (discussing adoption of first-to-file rule). In part, the lack of success in harmonizing national patent laws is due to the varying national views on the objectives of patent law. Patent laws implicate complex policy concerns upon which nations do not fully agree.

3. Where a patentee lacks or has more limited rights in a foreign jurisdiction, including due to dif-

ferences in law or enforcement mechanisms, the sale of a patented article in that jurisdiction should not exhaust the patentee's U.S. patent rights where there is no indication that the patentee intended to relinquish U.S. rights through a foreign transaction. To hold otherwise would work injustice on many U.S. patentees that have reasonably relied on the national exhaustion rule and, prospectively, would diminish the public benefits of the national and international patent regimes both in foreign jurisdictions where such transactions may occur (where a patentee might choose to cease sales to avoid redirection of goods to the United States) and in the United States (where innovation would be devalued by a lack of ability to protect against grey market importation).

In contrast, maintaining a national exhaustion rule enhances incentives for innovation by allowing patent holders to license or price patented technology according to the country of sale. As numerous economists have noted, a rule of international exhaustion, whereby sales in one country will exhaust the patentee's exclusive rights in another, can force patentees to elevate the price of products or licenses in lower-income nations (or withdraw completely from lower-income markets) to prevent others from profiting in the price differential between lower-income and higher-income countries. See, *e.g.*, Kamal Saggi, *Market Power in the Global Economy: The Exhaustion and Protection of Intellectual Property*, 123 Econ. J. 131, 135 (2013). The end result is to "average out" the market price so that patentees (or their licensees) will make fewer sales overall and certain consumers in lower-income countries will lose the ability to purchase and use the patented good. *Id.*

While a mandatory international exhaustion rule could result in short-term benefits to certain consumers in wealthier nations through a reduction in prices, such consumers would also face a long-term cost in the form of a reduction in the incentive to innovate. In all events, a fine balancing of policy considerations and off-setting welfare gains and losses nationally and internationally is appropriately left to the legislative and executive branches of government.

The implications of adopting an international exhaustion rule are not merely a matter for academic debate. The issue was hotly contested by trade representatives in TRIPS negotiations, who ultimately agreed to disagree, with the TRIPS agreement stating: "[N]othing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." TRIPS, *supra*, at art. 6; see Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, Trips, International IPR Exhaustion and a Few Other Things*, 21 Mich. J. Int'l L. 333, 346 (2000).

More recently, reports on the negotiation of the Trans-Pacific Partnership Agreement ("TPP") have noted that "the United States has opposed a rule of international exhaustion." Sarah R. Wasserman Rajec, *Free Trade in Patented Goods: International Exhaustion for Patents*, 29 Berkeley Tech. L.J. 317, 356 (2014). The lack of consensus on the wisdom of adopting a regime of international exhaustion—and the U.S. government's rejection of the rule in international negotiations—strongly counsels against imposing a sweeping change through judicial action. *Cf. Kirtsaeng*, 133 S. Ct. at 1385 (Ginsburg, J., dissenting) (noting that the Court's ruling "risks undermining the United States' credibility on the world stage"

when "the Government has urged our trading partners to refrain from adopting international-exhaustion regimes").[2]

B. A Rule of National Exhaustion Does Not Limit the Ability of Parties to Contract for International Exhaustion.

In the brief of the United States as amicus curiae, the government proposes that the court of appeals' decision should be overruled to the extent that it adopts the presumption that foreign sales do not exhaust U.S. rights. Br. United States as Amicus Curiae 20. The government proposes that the default rule should be international exhaustion, with parties able to limit the application of the rule by contract. *Id.* That proposal is inconsistent with existing law, see *supra* pp. 11-14, and the settled expectations of U.S. patentees. (And to the extent that the government favors such a rule for policy reasons, that is a matter for Congress, not the courts.)

Unlike the government's proposal, if the default rule remains national exhaustion, buyers and sellers of articles sold abroad and intended for foreign markets will have no need to change their practices to

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[2] Petitioner argues that "the international community is moving toward international exhaustion," noting that "[a]t least 24 countries have adopted rules of international patent exhaustion." Pet. Br. 55 (citing World Intellectual Property Organization Committee on Development and Intellectual Property, *Patent Related Flexibilities in the Multilateral Legal Framework and Their Legislative Implementation at the National and Regional Levels* Annex II (2010)). The United States is not among those countries. Nor are numerous other major market economies such as Japan, Germany, the United Kingdom, France, and Brazil.

avoid the risk of grey market importation. Likewise, in circumstances where goods are sold or licensed abroad with the expectation that the goods may reach the United States, parties may manifest their intentions by contracting to authorize such sales under any applicable U.S. patents, and the courts have repeatedly recognized the validity of such arrangements. See *Tessera, Inc.* v. *Int'l Trade Comm'n*, 646 F.3d 1357, 1369-71 (Fed. Cir. 2011) (holding that Tessera's unconditional licenses to foreign firms exhausted Tessera's U.S. patent rights); *San Disk Corp.* v. *Round Rock Research LLC*, No. 11-5243, 2014 WL 2700583, *3-*4 (N.D. Cal. June 13, 2014) (distinguishing *Jazz Photo* where worldwide license demonstrated that the patentee had already bargained for and received compensation for the right to make and sell the patented technology worldwide); *Multimedia Patent Trust* v. *Apple Inc.*, No. 10-CV-2618, 2012 WL 6863471, at *5 (S.D. Cal. Nov. 9, 2012) (same).

As noted above, the present amicus participates in a number of industry-wide standard licensing programs offered through patent pooling. Many, if not all, of those programs are designed to provide licensees with global "coverage" by providing inclusive licenses in all countries in which the patent-holder licensor holds patents relating to the relevant technology. See, *e.g.*, *AVC/H.264 FAQ*, MPEG LA, http://www.mpegla.com/main/programs/AVC/Pages/FAQ.aspx (noting that MPEG LA grants "worldwide, non-exclusive sublicenses"). There is no need to alter the existing scope of patent exhaustion doctrine when market participants currently can freely bargain for international exhaustion through contracts.

Further, because international transactions in goods generally require a greater degree of documen-

tation for customs and trade purposes—and international sales or licenses encompassing a worldwide market can be expected to encompass a higher volume of articles—permitting parties to opt-in to international exhaustion, rather than requiring opt-out for transactions intended to be solely domestic, is more sensible as a practical matter and consistent with "real world" solutions that businesses have adopted.

The market-driven adoption of the "opt-in" model for international exhaustion recognized by lower court case law highlights that the potential benefits of "international exhaustion" in appropriate circumstances are already available where needed. This too further counsels against adopting a new rule that would alter settled expectations with uncertain consequences in the United States and internationally.

CONCLUSION

The judgment below should be affirmed.

Respectfully submitted.

GARRARD R. BEENEY
Counsel of Record
ADAM R. BREBNER
ANGELA CHANG
ALFRED B. JENSEN
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, NY 10004
(212) 558-4000
beeneyg@ sullcrom.com

Counsel for Amicus Curiae Dolby Laboratories, Inc.

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No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC., PETITIONER

v.

LEXMARK INTERNATIONAL, LLC

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR PROFESSORS JOHN F. DUFFY AND RICHARD M. HYNES AS *AMICI CURIAE* IN SUPPORT OF NEITHER PARTY

MATTHEW J. DOWD
Counsel of Record
DOWD PLLC
1717 Pennsylvania Ave., NW
Suite 1025
Washington, D.C. 20006
(202) 573-3853
mjdowd@dowdpllc.com

January 24, 2017

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INTEREST OF *AMICUS CURIAE*

John F. Duffy is the Samuel H. McCoy II Professor of Law and the Armistead M. Dobie Professor of Law at the University of Virginia School of Law. He teaches and writes in the area of intellectual property. Richard M. Hynes is the John Allan Love Professor of Law at the University of Virginia School of Law. He teaches and writes in the areas of commercial law and law and economics. Professors Duffy and Hynes have recently co-authored an article concerning the exhaustion doctrine, *see* John F. Duffy & Richard Hynes, *Statutory Domain and the Commercial Law of Intellectual Property*, 102 Va. L. Rev. 1 (2016), and thus have an interest in ensuring that this Court receives accurate information concerning the relationship between intellectual property law and commercial law. Professor Hynes and Duffy have no personal interest in the outcome of this case.[1]

SUMMARY OF ARGUMENT

Although the Federal Circuit rightly held that the exhaustion doctrine is based on statutory analysis, the court chose the wrong section of the statute to analyze and reached the wrong result concerning the first

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[1] The parties have consented to the filing of this brief. On December 20, 2016, Respondent filed a letter granting consent for to the filing of amicus curiae briefs, in support of either party or of neither party. Written consent for the filing of this brief was obtained from the Petitioner and is on file with the Clerk. No counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund its preparation or submission. No person other than the amici and their counsel made a monetary contribution to the preparation or submission of this brief.

question presented in this case. The exhaustion doctrine is based not on the meaning of the word "authority" in 35 U.S.C. § 271(a) but instead on the scope of the exclusive rights granted under § 154(a)(1).

In its seminal exhaustion decisions, this Court clearly stated that it was interpreting the predecessors of § 154 and was restricting the scope of patent rights granted in the statute. Under this Court's precedents, patentees exhaust their exclusive rights to control sale and use with respect to a patented product once they transfer title to the product. Such an inferred limitation on the scope of § 154 and its grant of patent rights preserves the vast body of state and federal commercial law that regulates issues such as the extent to which a seller can place post-sale restrictions and encumbrances on goods; the notice required for such encumbrances and restrictions to be valid and enforceable; the extent to which such encumbrances are enforceable against subsequent purchasers; and the priorities that such obligations enjoy in bankruptcy.

With respect to the second question presented in this case, termination or curtailment of U.S. patent rights based on foreign sales is not consistent with the theory underlying this Court's exhaustion precedent.

The key to the exhaustion doctrine is that the patentee must "exercise[]" the rights granted in § 154 with respect to the particular product at issue. *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 17 (1913). Once that event occurs and the patentee has "enjoyed" its patent rights with respect to a particular product, the product is "discharged of all [patent] rights ... previously attached to it, or impressed upon it, by the act of

Congress under which the patent was granted." *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 661 (1895) (internal quotations omitted). That theory has no application where the transfer of the product takes place outside of the United States, for the rights secured by the patent grant in § 154 do not extend extraterritorially.

ARGUMENT

I. Lexmark's Sales of Cartridges in the United States Exhausted its U.S. Patent Rights to Control Sales and Uses.

A. The Patent Exhaustion Doctrine Is Based on an Interpretation of the Statutory Provisions Defining Patent Rights.

The Court of Appeals was correct to view the patent exhaustion doctrine as based not on federal common law but on statutory interpretation. As the Court of Appeals correctly recognized, once Congress has legislated in an area, the task of the federal courts is generally "'to interpret and apply statutory law, not to create common law.'" Pet. App. 24a (quoting *Northwest Airlines, Inc. v. Transp. Workers Union of Am.*, 451 U.S. 77, 95 n.34 (1981)). As this Court has recognized, that general reluctance to fabricate judge-made law in an area controlled by statute is based ultimately on separation-of-powers considerations. *City of Milwaukee v. Illinois*, 451 U.S. 304, 315 (1981). Such a fundamental jurisprudential commitment should not be cavalierly disregarded, and patent law—an area comprehensively controlled by an entire title of the

U.S. Code (title 35)—is an exceptionally poor place for federal courts to begin asserting a new-found power to supplement (or even supplant) federal statutory law with judge-made common law.

Although the Court of Appeals was correct in rejecting the view that federal courts can supplement the Patent Act with judge-made common law, it was wrong in its understanding of the statutory basis for the exhaustion doctrine. Properly understood, the doctrine is based not on an interpretation of the word "authority" in 35 U.S.C. § 271(a), but instead on the scope of the exclusive rights granted under 35 U.S.C. § 154(a)(1).

Under § 154(a)(1), every patent contains "a grant to the patentee ... of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States ...." Under this Court's precedents, the grant of exclusive rights in that statutory section has been interpreted as not extending to post-sale control over a purchaser's uses and further sales of the item.

The proper statutory basis of the exhaustion doctrine is evident in *Motion Picture Patents* v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917). The Court there began its legal analysis by stating that the case "requires that we shall determine the meaning of Congress when in Rev. Stats., § 4884, it provided that 'Every patent shall contain . . . a grant to the patentee, his heirs or assigns, for the term of seventeen years, *of the exclusive right to* make, *use*, and vend *the invention or discovery* throughout the United States, and the Territories thereof.'" *Id.* at 509

(emphasis in original). Revised Statutes § 4884 is a predecessor of § 154, *see* 35 U.S.C. § 154 (historical notes), and the *Motion Picture Patents* Court repeatedly referred to its task as identifying the proper "meaning" of the statutory grant of exclusive rights. *See, e.g.*, 243 U.S. at 510 (asserting that the "meaning [of the statutory words] would seem not to be doubtful if we can avoid reading into them that which they really do not contain"); *id.* at 514 (asserting that the "plain meaning of the statute" justified the result in the case).

The *Motion Picture Patents* case was consistent with this Court's prior precedents, which had also justified what today we call the "exhaustion doctrine" on the basis not of judge-made common law, but on the implicit limits to the statutory grant of exclusive patent rights. In *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 661 (1895), the Court began its opinion by quoting the same statute quoted in the *Motion Picture Patents* case, Revised Statute § 4884. The Court interpreted the scope of that statute, and its grant of patent rights, to be limited so that a patented product, once sold by the patentee, was "discharged of all the rights ... attached to it, or impressed upon it, by the act of Congress under which the patent was granted." *Id.* (internal quotations omitted).

So too in the earlier decision of *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1853), this Court interpreted the scope of the "franchise which the patent grants." The Court recognized that the franchise granted by a patent "consists altogether in the right to exclude every one from making, using, or vending the thing patented." *Id.* Nevertheless, once a

copy of the patented machine is sold, "the purchaser ... stands on different ground" for, "when the machine passes to the hands of the purchaser, it is no longer within the limits of the [patent] monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.*

In all of these decisions, the Court engaged in statutory interpretation, not in the fabrication of federal common law.[2]

The exhaustion doctrine also fits comfortably within other statutory construction cases in which this Court has inferred restrictions on the scope of seemingly expansive statutory language to avoid displacing other bodies of law. For example, in *EEOC v. Aramco*, 499 U.S. 244 (1991), this Court interpreted the statutory prohibitions against discrimination in Title VII as not encompassing extraterritorial behavior even though, read in isolation, the language itself was broad enough to cover such conduct. While the *Aramco* decision itself imposed a scope limitation on a federal statute to avoid displacing foreign law, other cases demonstrate that the scope of broad

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[2] The foundational precedent of exhaustion in the copyright area—*Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908)—also expressly stated that its decision was based on an interpretation of the statute granting exclusive rights to control the vending (or selling) of copyrighted works, *id.*, at 348, the Court framed the issue in the case as: "What does the statute mean in granting 'the sole right of vending the same'?" *Id.* at 349. The Court emphasized that the case presented "purely a question of statutory construction," *id.* at 350, and interpreted the statutory grant of exclusive rights as not extending to control of further sales after the first sale of the copyrighted work.

statutory language is often circumscribed to avoid interference with other bodies of law.

In *FDA v. Brown & Williamson Tobacco Corp.*, 529 U.S. 120 (2000), this Court interpreted the FDA's authority to regulate "drugs" and drug delivery "devices" as not extending to the regulation of cigarettes. The *Brown & Williamson* Court emphasized that the statute conferring the FDA's regulatory authority could not be viewed "in isolation." *Id.* at 132. In reaching its interpretation of the scope of the FDA statute, the Court considered "the tobacco-specific legislation that Congress has enacted over the past 35 years," *id.* at 143. Similarly, *Parker v. Brown*, 317 U.S. 341 (1943), this Court inferred a limitation on the scope of the Sherman Act so that the federal statute did not displace traditional mechanisms authorized by state regulatory law.

In all of these cases, limitations on the scope of a statute were inferred because "courts do not interpret statutes in isolation, but in the context of the corpus juris of which they are a part." *Branch v. Smith*, 538 U.S. 254, 281 (2003) (Scalia, J., plurality opinion). The inferred limitation on the scope of § 154 and its grant of patent rights preserves the vast body of state and federal commercial law that regulates issues such as the extent to which a seller can place post-sale restrictions and encumbrances on goods; the notice required for such encumbrances and restrictions to be valid and enforceable; the extent to which such encumbrances are enforceable against subsequent purchasers; and the priorities that such obligations enjoy in bankruptcy. John F. Duffy & Richard Hynes, *Statutory Domain and the Commercial Law of*

Intellectual Property, 102 Va. L. Rev. 1, 7 (2016) (arguing that "[t]he legal doctrine [concerning exhaustion] pursues not common law policies disfavoring encumbrances or restraints on alienation, but instead the more nuanced goal of limiting the scope or domain of IP statutes to avoid displacing the law in other fields, such as general contract, property, and antitrust law").

The Court of Appeals erroneously viewed the patent exhaustion doctrine as merely an implied license of "authority" under 35 U.S.C. § 271(a) that could be waived if the patentee makes clear its intention to control post-sale uses and resales. Pet. App. 24a-26a. Under that interpretation, the exhaustion doctrine is merely a default rule that can be defeated entirely if the patentee expressly purports to reserve the right to control sales and uses after the first sale.

The interpretation of the Court of Appeals is wrong. This Court has never based the patent exhaustion doctrine on the word "authority" in § 271(a), but has instead pointed to the statute conferring patent rights (§ 154(a)(1) and its predecessors) as the basis for the doctrine. Under this Court's precedents, therefore, an authorized purchaser of patented product does not need any "authority" from the patent owner to use or to resell the purchased product because the patent owner has no right under federal patent law (*i.e.*, no right under § 154(a)(1)) to control use and sale after an authorized sale (or other authorized transfer of title to the good).

The exhaustion doctrine's limit on the scope of patent rights is important because it serves to prevent

the patent statute from interfering with other highly complex areas of law with little or no indication that Congress wanted to meddle in those areas. The doctrine is not, however, especially harsh to the interests of patentees; it merely forces patentees to rely on general commercial law (not patent law) to enforce any post-sale restriction on use and sale.

Indeed, this Court's precedent makes clear that the patent exhaustion doctrine does not forbid a patent owner from relying on other bodies of law—*e.g.*, state contract law, state property law, etc.—to impose whatever conditions are permissible under those other bodies of law. As this Court recognized in *Boston Store of Chicago v. American Graphophone, Co.*, 246 U.S. 8, 20 (1918), there are two different inquiries when a patentee attempts to impose a post-sale restriction: "[1] whether the right to make the [post-sale] stipulation * * * and the right to enforce it were secured by the patent law, and if not, [2] whether [the post-sale clause] was valid under the general law." The patent exhaustion doctrine answers the first question in the negative, but it leaves the second question to be answered by general commercial law (including state law as well as some federal law such as antitrust and bankruptcy law).

Thus, for example, if the owner of a patent on a new laser sells one of the patented lasers to a research university on the condition that the laser not be used for commercial purposes, such a restriction might very well be enforceable through state contract law. Furthermore, under Article 9 of Uniform Commercial Code, the patent owner might also be able to place an encumbrance on the laser to secure the obligation not

to use the laser for commercial purpose, and that encumbrance might be enforceable against downstream purchases.

Properly understood, the patent exhaustion doctrine ensures that patent law is neither tolerant nor hostile towards post-sale restrictions. It is indifferent to them; their legality is a matter outside of patent law, an independent inquiry. The cases repeatedly demonstrate this agnosticism towards the ultimate results that would be reached under other non-patent bodies of law. See *Quanta Computer v. LG Elecs.*, 553 U.S. 617, 637 n.7 (2008) ("We express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages."); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 509 (1917) (emphasizing that the ability of a patentee to restrict by contract a purchaser's use of a patented machine was "a question outside the patent law and with it we are not here concerned"); *Keeler v. Standard Folding Bed*, 157 U.S. 659, 666 (1895) (stating that it was not deciding "[w]hether a patentee may protect himself and his assignees by special contracts brought home to the purchasers."); *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 550 (1852) (noting that because the item had been sold, "[c]ontracts in relation to it are regulated by the laws of the State" and not patent law).[3]

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[3] Such agnosticism about ultimate results would be difficult to explain if the Court were engaged in pure common-law policymaking directed toward substantive goals (such as forbidding patent owners from imposing alienation restrictions or encumbrances on the goods being sold).

B. This Court Should Avoid Relying on Three Arguments Advanced in Petitioner's Merits Brief.

While the Petitioner Impression Products, Inc. is correct in arguing that Lexmark's domestic sales of cartridges exhausted any patent law rights to control future uses or sales of the cartridges, Petitioner advances three arguments that this Court should not embrace.

1. *Conditional Sales.* While generally rejecting the view that the exhaustion doctrine can be avoided through the device of a "conditional sale," the Petitioner nonetheless leaves open the possibility that exhaustion might not be triggered where the seller imposes a "condition precedent" to a transfer of title and that condition has not yet been satisfied.[4] Petitioner's reasoning creates the potential for mischief because it seems to leave in place some version of the conditional sale doctrine applied by the court below.

The better approach to "conditional sales" is to recognize that, under modern commercial law applicable in all 50 States, any attempt by a seller to retain title in goods through any form of conditional sale does not succeed in reserving title. Rather, by law,

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[4] *See* Pet. Br. 33 (arguing that the reference in *Mitchell* v. *Hawley*, 83 U.S. 544, 548 (1872), "to a sale 'without any conditions' thus meant a sale in which title had been transferred, either because there was no condition precedent to transfer (an 'absolute' sale) or because the condition precedent had been satisfied. *Mitchell*'s holding, therefore, is that if title has not yet transferred to the purchaser, there is no completed sale that triggers exhaustion.").

"[t]he retention or reservation of title by a seller of goods notwithstanding shipment or delivery to the buyer under [U.C.C.] Section 2-401 is limited in effect to a reservation of a 'security interest.'" U.C.C. § 1-201(a)(35); *see also id.* § 2-401 (also providing that "[a]ny retention or reservation by the seller of the title (property) in goods shipped or delivered to the buyer is limited in effect to a reservation of a security interest").

Petitioner's apparent view that some forms of conditional sales do not transfer title is out of step with more than a half century of commercial law. *See* Duffy & Hynes, 102 Va. L. Rev. at 63 ("The current version of the UCC makes it abundantly clear that conditional sales and other reservations of title are to be treated like any other security interest.") (collecting cites); Lynn M. LoPucki, Elizabeth Warren, Daniel Keating & Ronald J. Mann, Commercial Transactions: A Systems Approach 837 (5th ed. 2012) ("The consequence [of a conditional sale] is that the buyer becomes the owner of the goods and the seller becomes a secured creditor for the price of the goods."); Note, *Effect of the Uniform Commercial Code on Virginia Commercial Law: Conditional Sales and Article 9*, 20 Wash. & Lee L. Rev. 286, 286 (1963) ("The conditional sale is one of several common law and statutory security devices merged into what is called a security interest under the secured transactions article of the Uniform Commercial Code."); Homer Kripke, *The Modernization of Concepts under Article 9 of the Uniform Commercial Code*, 15 Bus. Law 645, 646 (1960) (noting that the U.C.C. replaces a number of

pre-code devices, including conditional sales, with the single concept of a security interest).

In short, the patent exhaustion doctrine applies whenever title is transferred, and because modern commercial law is clear that a transfer of title occurs in both conditional and unconditional sales, patent rights are exhausted in all sales.[5]

2. *Single Reward.* In one portion of its brief, Petitioner argues that the patent exhaustion doctrine should be justified on the grounds that "a patentee is entitled to only a single reward for the sale of a patented good." Pet. Br. 12. While the "single reward" language in Petitioner's brief is based on isolated passages from this Court's opinions, we recommend avoiding that particular phraseology for two reasons.

First, any "single reward" theory might be confused with the modern debate over the "single monopoly profit" theory in antitrust law. *See* generally Einer Elhauge, *Tying, Bundled Discounts, and the Death of*

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[5] At the time of *Mitchell* v. *Hawley*, 83 U.S. 544, 548 (1872), the law of many states (perhaps even all states) did permit "conditional sales" that did not transfer title to the purchaser. Because such conditional sales no longer exist in the United States (and plainly are not involved in this case), this Court need not address how the exhaustion doctrine would apply in such an archaic setting. However, courts may eventually have to address this issue if international sales are held to exhaust U.S. patent rights as some countries still recognize the concept of conditional sales or retention-of-title clauses. *See, e.g.*, Gerard McCormack, Secured Credit Under English and American Law 54 (Cambridge 2004) (explaining that a retention-of-title clause under English law allows the seller to "retain[] ownership of the goods until the satisfaction of some condition" and that until the condition is satisfied "the buyer does not acquire any bit of ownership").

the Single Monopoly Profit Theory, 123 Harv. L. Rev. 397 (2009) (discussing the controversy surrounding a single monopoly profit theory in antitrust). The exhaustion doctrine has frequently been confused with antitrust doctrines, and that confusion has produced unfortunate results. Indeed, the decision of the Federal Circuit below seems to have fallen victim to the confusion between the exhaustion doctrine and antitrust law, for the court distinguished several of this Court's exhaustion cases on the grounds that they were merely applying antitrust rules. Pet. App. 53a-54a. It would be best to avoid justifying the exhaustion doctrine on the basis of a controversial antitrust theory.

Second, to the extent that it may imply a necessity that a patentee must receive (or must be limited to) a particular number of monetary payments as its just reward, the "single" reward language is under-inclusive as a justification for exhaustion. Consider a case where the patentee sells a patented washing machine to a consumer for no money down and monthly payments of $100. The patentee/seller takes a security interest in the washer to secure payment. After delivery of the machine, the consumer defaults on the first month's payment but continues to use the washer. Can the patentee/seller sue the consumer for patent infringement for the continuing use of the machine?

In that hypothetical, the patentee/seller has received no monetary reward—not one cent—for the washing machine, so a "single reward" theory might seem to permit the infringement suit. Permitting such a suit would be a mistake in our view. The sale of the

washing machine should terminate the patent rights, and the patentee/seller should be left with the same rights that a seller of unpatented goods would have against a defaulting consumer. The controversy between the seller and the defaulting consumer should be viewed as simply "outside" of patent law once the sale occurs. *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1853).

More accurate and appropriate language to describe the exhaustion doctrine is found in this Court's opinion in *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895). In interpreting the predecessor of § 154(a)(1), *see id.* at 661 (quoting Rev. Stat. § 4884), the *Keeler* Court explained that a patented product "pass[es] outside of the [patent] monopoly, and is no longer under the peculiar protection granted to patented rights" once the patentee has received "'a satisfactory compensation'" in exchange for the product. *Id.* (quoting the opinion of Justice Clifford, riding circuit, in *Goodyear v. Beverly Rubber Co.*, 10 F. Cas. 638, 640 (C.C. Mass. 1859)).

The more general language of "satisfactory compensation" is better because the exhaustion doctrine does not prevent the patentee from seeking any package of contractual or property rights as its preferred "compensation" for the patented product. Thus, for example, a patentee may seek, as its "satisfactory compensation," (i) a single payment; (ii) an initial payment and a series of future payments (possibly secured by an encumbrance such as a security interest); (iii) a series of future payments only; (iv) a series of future payments based on the amount or degree of use of the product (again, perhaps secured

by an encumbrance on the product); or (v) even, as in the case of gift, no payment whatsoever. In all such cases, the exhaustion doctrine operates to terminate certain patent rights without regard to, and without any affect upon, the structure of compensatory contractual or property rights that the patentee has obtained in exchange for transfer of title to the good.

3. *Common Law*. Petitioner views the exhaustion doctrine as developing out of the common law. As stated above, the patent exhaustion doctrine is instead properly understood as statutory interpretation. Two additional problems with Petitioner's view are explored below.

First, Petitioner attempts to ground the exhaustion doctrine in the common law's hostility to restraints on alienation, but the common law rule was much narrower than the exhaustion doctrine.

Petitioner relies on Lord Coke's Institutes of the Laws of England, Pet. Br. 13, 45, but Petitioner's reference to Lord Coke is incomplete. Coke's condemnation of restraints on alienation was limited to *complete* restrictions on alienation. The very next section of the Institutes after the section quoted by Petitioner affirms that more limited restrictions on alienation may be "good" because such "conditions doe not take away all power of alienation." 2 E. Coke, The First Part of the Institutes of the Lawes of England § 361 (David S. Berkowitz & Samuel E. Thorne eds., Garland Publ'g, Inc. 1979) (1628).

Coke's treatise confirms that the common law concerning restraints on alienation had a degree of complexity, and that complexity continues (perhaps

even has increased) under modern commercial law. The patent exhaustion doctrine can be justified much better on the ground that the doctrine is designed to prevent patent law from *interfering* with the *regulation* of restraints on alienation accomplished by other areas of law, which sometimes but not always prohibits restraints on alienation.

Second, many of the restrictions that patentees seek to place on patented goods pertain to *uses* of the patented item, not alienation of the item. In this case itself, Lexmark has restricted the uses of its cartridges (prohibiting owners from refilling them). If the exhaustion doctrine is justified on the basis of a common-law hostility to restraints on alienation, the justification does not explain why the exhaustion doctrine prohibits a patent infringement suit to enforce the use restriction.

Nor can the exhaustion doctrine be justified on the grounds that the law is generally hostile to placing any post-sale encumbrances or restrictions on goods.[6] The law does not have such a policy. An entire article of the Uniform Commercial Code (Article 9) is devoted to allowing sellers to place post-sale encumbrances on goods through the device of a "security interest." Although security interests usually secure an obligation to pay, they can, and do, secure other contractual obligations such as obligations that restrict the use or resale of a good. Lynn M. LoPucki, Elizabeth Warren, Daniel Keating & Ronald J. Mann,

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[6] One amici group appeared to be making such a broad argument in its brief in support of the petition for certiorari. Professors' Brief at 13, 16.

Commercial Transactions: A Systems Approach 966 (5th ed. 2012) ("Virtually any obligation can be secured if the parties make their intention clear.").

The exhaustion doctrine sweeps more broadly than any common-law policy could justify because the common law (as well as modern statutory law) is not uniformly hostile to post-sale restrictions on property. Such restrictions are allowed in some circumstances (*e.g.*, where all relevant parties have notice), but not in others. By limiting the scope of rights so that patent law cannot be used to enforce any such restrictions, the patent exhaustion doctrine eliminates the possibility that patent law could interfere with the complex regulation of post-sale restrictions and encumbrances that can be placed on sold goods.

II. Lexmark Has Not Exhausted its U.S. Patent Rights Through Its Sales of Cartridges Outside of the United States.

Termination or curtailment of U.S. patent rights based on foreign sales is not consistent with the theory underlying this Court's exhaustion precedent. As explained in *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 17 (1913), the exhaustion theory is that, once "[t]he right to vend conferred by the patent law has been exercised," any further restriction on the vended item "is beyond the protection and purpose of the act." Similarly, as articulated in *Keeler*, the exhaustion doctrine operates after the patentee "'has enjoyed'" the rights secured by patent. 157 U.S. at 661 (quoting the opinion of Justice Clifford, riding circuit, in *Goodyear v. Beverly Rubber Co.*, 10 F. Cas. 638, 640 (C.C. Mass. 1859)).

The key to the exhaustion doctrine is thus that the patentee must "exercise[]" or "enjoy[]" the rights granted in the U.S. patent statute with respect to the particular product. Once that event occurs, the product is "'discharged of all [patent] rights ... previously attached to it, or impressed upon it, by the act of Congress under which the patent was granted.'" *Id.* (quoting *Goodyear*, 10 F. Cas. at 640). Indeed, this theory underlies the very name of the doctrine, for the term "exhaustion" connotes using up something.

That theory has no application where the transfer of the product takes place outside of the United States, for the rights secured by the patent grant in § 154 do not extend extraterritorially. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 523 (1972) ("Section 154 and related provisions obviously are intended to grant a patentee a monopoly only over the United States market.").

This Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), does not require a different result. If, as we have argued, the exhaustion doctrine is not some free-floating doctrine of judge-made law but instead an interpretation of specific federal statutes, then the appropriate question is whether the structure of the patent and copyright statutes are different with regard to exhaustion.

The clear answer is that the two statutes are quite different. The Patent Act has no separately codified exhaustion provision, so the doctrine remains an interpretation of the patent grant in § 154(a)(1). By contrast, the copyright statute has a codified exhaustion provision in 17 U.S.C. § 109(a).

Furthermore, the copyright's codified exhaustion statute explicitly points to copyright's grant of exclusive distribution rights in 17 U.S.C. § 106(3) as the set of rights that are exhausted, and in 17 U.S.C. § 602(a)(1), the copyright statute "makes clear" that the copyright owner's right to control importation is merely a subcomponent of the copyright owner's exclusive distribution right. *Kirtsaeng*, 133 S.Ct. at 1355. By contrast, the right to control importation is a right separate and distinct from the right to control sales and uses in the Patent Act. *See* 35 U.S.C. § 154(a)(1) (conferring the "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or *importing the invention into the United States*") (emphasis added).

If an analogy to the copyright statute were to be drawn, the appropriate analogy is between this case and *Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191 (1931). There the Court held that, because the copyright statute had "expressly granted" control over all public performances, that right remained within the control of the right holder notwithstanding the sale of a particular copy. *Id.* at 197. Similarly, the Patent Act's express grant of a right to control importation, separate and distinct from the rights to control sales and uses (the rights traditionally exhausted), should be viewed as an indication in the statute that the right to prevent importation remains even after the exhaustion of the rights to control sales and uses. *See* Duffy & Hynes, 102 Va. L. Rev. at 43-53 (explaining in detail that, because the first sale or exhaustion doctrine is based on statutory interpretation, the

doctrine is sensitive to the different structures of rights in the patent and copyright statutes).

CONCLUSION

The decision of the Court of Appeals should be reversed with respect to the first question and affirmed with respect to the second question.

Respectfully submitted,

MATTHEW J. DOWD
Counsel of Record
DOWD PLLC
1717 Pennsylvania Ave., NW
Suite 1025
Washington, D.C. 20006
(202) 573-3853
mjdowd@dowdpllc.com

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IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF *AMICI CURIAE* PROFESSOR ROBIN FELDMAN, ET AL., IN SUPPORT OF PETITIONER

ROBIN FELDMAN
Counsel of Record
Harry & Lillian Hastings Professor of Law &
Director of the Institute for Innovation Law
UNIVERSITY OF CALIFORNIA
HASTINGS COLLEGE OF THE LAW
200 McAllister St.
San Francisco, CA 94102
(415) 565-4661
feldmanr@uchastings.edu

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

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INTEREST OF THE *AMICI CURIAE*[1]

Amicus curiae Professor Robin Feldman is an expert in intellectual property law, particularly issues involving the sciences, intellectual property monetization, and the intersection of intellectual property and antitrust. She is the Harry & Lillian Hastings Professor of Law at the University of California Hastings College of the Law and Director of the UC Hastings Institute for Innovation Law. She has received multiple awards for teaching and scholarship, and has published two books, *Rethinking Patent Law* (Harvard 2012) and *The Role of Science in Law* (Oxford 2009). Professor Feldman's third book, *Drug Wars: How Pharmaceutical Companies Raise Prices and Keep Generics Off the Market* (Cambridge) is forthcoming in 2017. Professor Feldman has published numerous articles in law reviews, the New England Journal of Medicine, and the American Economic Review. She has testified frequently before Congress on intellectual property issues and has provided testimony and commentary for the Federal Trade Commission, the Department of Justice, the United States Patent and Trademark Office, and the National Academy of Sciences. Her empirical work on patent trolling was cited in the 2013 White House Report on Patent Assertion, and various works have been cited by other White House publications, the

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[1] Counsel for all parties have consented to the filing of this brief. No counsel for any party had any role in authoring this brief, and no person other than the named *amici* made any monetary contribution to the preparation of this brief. *See* Rule 37.6.

nonpartisan Congressional Research Service, and various federal agencies.[2] As Director of the Institute for Innovation Law, Professor Feldman also runs a client-based education program, the Startup Legal Garage.

Amicus curiae Betty Chang Rowe is Senior Research Fellow at the University of California Hastings College of the Law, Institute for Innovation Law. She has over 15 years of experience in complex commercial litigation as an attorney and partner in private practice.

Amici curiae Professor Feldman and Senior Research Fellow Betty Chang Rowe have a strong interest in maintaining the integrity of patent law and the doctrine of patent exhaustion. *Amici* submit this brief to offer for this Court's consideration a detailed view of the Federal Circuit's efforts to reformulate patent exhaustion in ways that are directly in conflict with this Court's precedent, that stray from the underlying

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[2] Recent examples include FED. TRADE COMM'N, PATENT ASSERTION ENTITY ACTIVITY: AN FTC STUDY, at 2, 22-27, 31-32, 54, 138 (2016); CONG. RES. SERV., REPORT R44643, THE HATCH-WAXMAN ACT: A PRIMER, at n.87 (2016), https://www.everycrsreport.com/files/20160928_R44643_1c2fafad2efe96d4c0fe44f2f23308dcfc059f83.pdf; THE PATENT LITIGATION LANDSCAPE: RECENT RESEARCH AND DEVELOPMENTS, COUNCIL OF ECONOMIC ADVISER ISSUE BRIEF, at 4 (2016), https://www.whitehouse.gov/sites/default/files/page/files/201603_patent_litigation_issue_brief_cea.pdf; EXEC. OFF. OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION, at 5 (2013), https://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf.

purposes and objectives of patent law, and that hamper commerce and the economy.

SUMMARY OF ARGUMENT

For twenty-five years, the Federal Circuit has waged war on this Court's doctrine of patent exhaustion. With each battle, the Circuit has tried to introduce concepts that would have the effect of nullifying the doctrine, in a manner that is tempting to characterize as reversal from below. The Federal Circuit's *en banc* opinion in this case is the latest front.

The well-established doctrine of patent exhaustion limits a patent holder's right to control what others can do with an article embodying an invention, once that article has been sold. *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013). Under the doctrine, "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 638 (2008). Underlying the doctrine is a recognition that there is a point at which "the purpose of the patent law is fulfilled with respect to any particular article" and that "once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *United States v. Univis Lens Co.*, 316 U.S. 24, 251 (1942). The exhaustion doctrine is also known as the "first-sale doctrine," because it limits the

patent holder's ability to place restrictions beyond the initial sale of an item. *See Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1092 (1994).

Initially articulated by the Supreme Court in 1852, the exhaustion doctrine has been consistently applied by this Court for 165 years. Most recently, this Court reaffirmed the doctrine in *Monsanto* (2013), *Quanta* (2008), and *Univis* (1942). Rather than hewing to this Court's century-old doctrine, the Federal Circuit's 53-page *en banc* decision carefully lectures this Court on why the Court improperly interpreted Congressional legislation and why there is no basis for the Court's doctrine. In so doing, as the dissent acknowledged, the Federal Circuit has "exceed[ed] [its] role as a subordinate court by declining to follow the explicit domestic exhaustion rule announced by the Supreme Court." *Lexmark Int'l Inc. v. Impression Products, Inc.*, 816 F.3d 721, 733-34 (Fed. Cir. 2016) (Dyk, J., dissenting). *Amici* write to highlight the full sweep of the Federal Circuit cases that culminate in *Lexmark,* in the hope that this Court will repudiate the Federal Circuit's line of logic, in its entirety.

The Federal Circuit would eviscerate the exhaustion doctrine, along with its limit on the power of the patent holder. The decision allows a patent holder to impose restrictions against all downstream users of an article, after the article's initial release into the stream of commerce, simply by declaring those restrictions and specifying that the transaction is not a sale. In effect, the Federal Circuit concludes that a sale is not a

sale, and the exhaustion doctrine does not apply, as long as the patent holder says so. In so doing, the Federal Circuit decision not only defies logic, it also defies this Court's reminder that, "[i]n applying [the exhaustion] rule, this Court has quite consistently refused to allow the form into which the parties chose to cast the transaction to govern." *See United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942).

The Federal Circuit opinion also attempts to cabin the discussion in this case by suggesting that the parties below did not address the limits of the patent power. The exhaustion doctrine, however, is focused entirely on the limits of the patent power. *See Quanta*, 553 U.S. at 617 (noting that, "[f]or over 150 years, this Court has applied the doctrine of patent exhaustion to *limit the patent rights* that survive the initial authorized sale of a patented item" (emphasis added)). It would be impossible to discuss exhaustion without discussing the limits of the patent power. Attempting to frame the case in this fashion denudes this Court's 165 years of exhaustion doctrine, attempting to set it adrift without any moorings in history or logic.

The Federal Circuit tries mightily to support its approach by noting that this Court uses the word "authorized" in describing patent exhaustion. *See Lexmark*, 816 F.3d at 739 (citing language in *Quanta*, 553 U.S. at 625 that, "the initial authorized sale of a patented item terminates all patent rights to that item"). The Federal Circuit interprets the language in a circular manner, finding that when downstream users act "contrary to the . . . limits on the authority

conferred at the time of the original sale, [their actions] remain[s] unauthorized." *See Lexmark*, 816 F.3d at 726; *see also id.* at 739-42 (engaging in extensive discussion of the word "authorized").

The Federal Circuit's interpretation places far more weight on the slender word "authorized" than it could ever bear. Historically, the term "authorized sales" entered the exhaustion definition to clarify that a patent holder need not do its own manufacturing, and thus, exhaustion applies only after those "authorized" to do the manufacturing have sold the item. *See General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938). After all, the patent system does not mandate vertical integration, which would require that one company invent, manufacture, and sell, all on its own. In modern commerce, the word "authorized" takes on particular force given the problem of rampant knockoff goods. Quite simply, a patent holder should not be judged to have exhausted its patent rights when goods enter the stream of commerce without anyone ever receiving permission from the patent holder. None of this, however, requires the elaborate twists and turns to which the Federal Circuit resorts in its latest effort to avoid the exhaustion doctrine.

Patents have become a pervasive presence in society, seeping into every nook and cranny of American life.[3] In this context, applying the proper doctrines to patent law is of particular importance for ensuring

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[3] Robin Feldman, *Intellectual Property Wrongs*, 18 STAN. J.L. BUS. & FIN. 250, 252 (2013).

that patent law remains faithful to its design. The Federal Circuit decision in the current case ignores that essential design and should be reversed. As this Court has consistently held, for well over a century and as recently as 2008, the initial sale of a patented item "terminates all patent rights in that item." *Quanta*, 553 U.S. at 625. That termination occurs regardless of the restrictions, conditions, or other limitations a patent holder may attempt to impose on the first sale.

ARGUMENT

I. THE LONGSTANDING DOCTRINE OF PATENT EXHAUSTION PROPERLY LIMITS PATENT RIGHTS AFTER THE PATENTED ITEM HAS BEEN RELEASED INTO THE CHANNELS OF TRADE

A. The Patent Exhaustion Doctrine Is Well Entrenched in Supreme Court Jurisprudence

The doctrine of patent exhaustion is a fundamental tenet of patent law, well-ingrained in Supreme Court jurisprudence for over 150 years. The doctrine holds that a patent holder may not control a patented item once it has been released into the "channels of trade." *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917). In more simplistic terms, once an item embodying an invention is sold, the patent holder must relinquish control of that item. This Court first articulated the doctrine in *Bloomer v.*

McQuewan, 55 U.S. (14 How.) 539 (1852), explaining that, "when the machine passes to the hands of the purchaser, it is no longer within the limits of the [patent] monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549.

Since *McQuewan*, this Court has repeatedly and consistently applied the exhaustion doctrine to bar a patent holder from reaching beyond the first sale of a patented item to control downstream sales or uses.[4] Recently, in *Quanta* (2008), this Court considered whether the doctrine applied to method patents, specifically, components of a patented computer system that must be combined with additional components in order to practice the patented methods. "For over 150 years," the opinion began, "this Court has applied the doctrine of patent exhaustion to limit the patent rights

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[4] *See, e.g., Adams v. Burke*, 84 U.S. 453, 455 (1873) ("where a person ha[s] purchased a patented machine of the patentee or his assignee, this purchase carrie[s] with it the right to the use of that machine so long as it [is] capable of use"; affirming the dismissal of a patent holder's suit alleging that a licensee had violated post-sale territorial restrictions on the use of patented coffin lids); *Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8, 25 (1918) ("by virtue of the patent law one who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied."); *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942) (exhaustion was triggered by the sale of eyeglass lens blanks that "embodie[d] essential features of [the] patented invention").

The one aberration, *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), was explicitly overruled five years later in *Motion Pictures*. *See Motion Pictures*, 243 U.S. at 518.

that survive the initial authorized sale of a patented item." *Id.* at 621. In a unanimous reversal of the Federal Circuit's opinion, this Court re-affirmed and applied its "longstanding doctrine" to prevent the patentee from further asserting any patent rights with respect to patents substantially embodied by those products. This Court unequivocally held, "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638.

A mere four years ago, this Court again reaffirmed that "[t]he doctrine of patent exhaustion limits a patentee's right to control what others can do with an article embodying or containing an invention." *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013). In other words, the doctrine "delimit[s] the scope of the patent grant." *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964).

B. The Patent Exhaustion Doctrine Serves Important Public Policy Objectives

The exhaustion doctrine, in limiting a patent holder's rights under patent law, serves several important public policy objectives. With roots reaching back to the law related to tangible goods, the doctrine flows from the notion that if one buys an item, one should be free to use it in any way. At the doctrine's inception back in the mid-1800s, the Court explained that a purchaser may use a patented item "in the

ordinary pursuits of life" (*McQuewan*, 55 U.S. at 549) and that "where a person had purchased a patented machine of the patentee or his assignee, this purchase carried with it the right to the use of that machine so long as it was capable of use." *Adams*, 84 U.S. at 455. In other words, if I buy a hammer, for example, I should be able to hit any nail I choose or sell it to anyone I want.[5] The doctrine is also grounded in the common law principle of the free alienability of property and an appreciation of the benefits that accrue to commerce from such freedom.[6] Finally, a key economic rationale is the fact that endless restrictions on downstream uses of property create bottlenecks in the flow of commerce, along with the resulting transaction costs and economic waste. The farther a patent holder can reach in the life of a patented object, the more the stickiness and friction of each interaction can gum up the system. The doctrine of patent exhaustion, with its limitations on how many iterations the patent holder can reach, represents a cap on the amount of friction that one patent holder can create.[7]

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[5] ROBIN FELDMAN, RETHINKING PATENT LAW at 143 (Harvard 2012).

[6] *Id.*; *see also Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500-01 (1917) (describing a patentee's restrictions as "restraints upon [the property's] further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest.").

[7] FELDMAN, RETHINKING PATENT LAW at 146; *see also* Brief for the United States as Amicus Curiae Supporting Petitioners, *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008),

II. THE FEDERAL CIRCUIT ENGAGES IN REVERSAL FROM BELOW ON THE LONGSTANDING DOCTRINE OF EXHAUSTION

A. *Mallinckrodt:* The First Front in the Federal Circuit's Offense Against the Exhaustion Doctrine

The Federal Circuit's assault on this Court's century-old exhaustion doctrine began with *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), a patent infringement case that concerned a single-use only restriction on a device. The purchaser defended against the patent claim by arguing that the patent holder had exhausted its rights by the sale of the device and that attempts to continue to assert those patent rights constituted misuse of the patent.[8] Agreeing with the exhaustion analysis, the District Court held that the transaction exhausted the patent holder's right to control a purchaser's use of the device. *Mallinckrodt, Inc. v. Medipart, Inc.*, 1990 WL 19535, *9 (N.D. Ill. 1990).

The Federal Circuit reversed, in an opinion written by Judge Newman. Referencing the District Court's description of the law as requiring that "no

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2007 WL 3353102 at *27-28 (identifying transactional inefficiencies in the absence of the exhaustion doctrine).

[8] For a detailed description and history of the doctrine of patent misuse, *see* FELDMAN, RETHINKING PATENT LAW at 137-42, 147-48; Robin Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399 (2003) (hereinafter "*Insufficiency*").

conditions be imposed on patented goods after their sale," the Federal Circuit responded that "the court erred in its analysis of the law for not all restrictions on the use of patented goods are unenforceable." *See Mallinckrodt*, 976 F.2d. at 703.

To reach its holding, the Federal Circuit in *Mallinckrodt* reinterpreted this Court's precedents related to exhaustion and concluded that those cases should not be read to forbid post-sale restrictions on a patented article. Specifically, Judge Newman concluded that, "[v]iewing the entire group of these early cases, [they] do not stand for the proposition that no restriction or condition may be placed upon the sale of a patented article." *Id.* at 708. Rather, according to *Mallinckrodt*, this Court's precedents should be understood to forbid only restrictions past the first sale *if* those restrictions violate other areas of law, such as antitrust. *See id.* Following this reinterpretation, *Mallinckrodt* declared that, "[t]he appropriate criterion is whether Mallinckrodt's restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having *an anticompetitive effect not justifiable under the rule of reason.*"[9] *Id.* (emphasis added). No supporting authority was cited.

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[9] In that case, the Federal Circuit found that the post-sale use restriction on the sale of a medical device was enforceable through a patent infringement suit because "the restriction here at issue does not per se violate . . . the antitrust law." *Mallinckrodt*, 976 F.2d at 701.

In one sentence, the Federal Circuit in *Mallinckrodt* collapsed several areas of patent law into antitrust doctrine and introduced antitrust style analysis across a range of patent doctrines. This convoluted and confused opinion has echoed throughout patent law since.

The Federal Circuit's move in *Mallinckrodt* is reminiscent of its attempt to import antitrust doctrines into another area of patent law – the award of attorney's fees under the Patent Act – which this Court recently rebuffed. Specifically, in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), the Federal Circuit added the requirement that for a court to award fees, the suit must be both objectively and subjectively baseless. *Id.* at 1381-82. In creating the requirement, the Federal Circuit cited this Court's holding in the antitrust case, *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993) (hereinafter, "*PRE*"). In a unanimous opinion, this Court rejected the Federal Circuit's logic, holding that the Circuit had "imported the *PRE* standard" when the standard has "no roots in the text of [the relevant section of the Patent Act] and it makes little sense" in that context. *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1757 (2014) (citation omitted).[10]

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[10] The "*PRE* standard" refers to this Court's holding that to qualify for the "sham litigation" exception to antitrust immunity, a "lawsuit must be objectively baseless" and must "concea[l] 'an attempt to interfere directly with the business relationships of a competitor. . . .'" *PRE*, 508 U.S. at 60-61.

Similarly, *Mallinckrodt*'s injection of antitrust tests and standards into the exhaustion doctrine finds no roots in patent law either. No precedent from this Court suggests that exhaustion turns on antitrust concerns. The Federal Circuit simply chose to strike out on its own in *Mallinckrodt*, in an attempt to radically alter the exhaustion doctrine. The Federal Circuit, however, was not at liberty to change this Court's exhaustion doctrine from below.

Worse still was the fact that Judge Newman's decision cited the already discredited Federal Circuit opinion in *Windsurfing Int'l v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986), *cert. denied*, 477 U.S. 905 (1986). *See Mallinckrodt,* 976 F.2d at 706. In *Windsurfing,* Judge Markey of the Federal Circuit made an aborted attempt to import antitrust law into patent misuse, adding the term "with anticompetitive effect." *See* 782 F.2d at 1001.[11] Within nine months, Judge Markey retreated from *Windsurfing* and held that patent misuse did *not* require antitrust-type findings, acknowledging that such changes are left to the province of Congress and the Supreme Court. *See Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 665 n.5 (Fed. Cir. 1986) ("We are bound . . . to adhere to existing Supreme Court guidance in the area until otherwise directed by Congress

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[11] While Judge Markey cited *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Foundation*, 402 U.S. 313 (1971) as support for the "anticompetitive effects" requirement, that opinion does not contain that language.

or by the Supreme Court").[12] Far from adhering to this Court's guidance, however, Judge Newman simply took up the banner in *Mallinckrodt*, attempting to eliminate exhaustion and all other aspects of patent misuse in one fell swoop.[13]

B. Post-*Mallinckrodt*: The Supreme Court Unequivocally Reaffirms the Exhaustion Doctrine

Point by point, this Court has reaffirmed the doctrines that *Mallinckrodt* sought to eliminate. In *Kimble v. Marvel Entertainment, LLC*, 135 S. Ct. 2401 (2015), this Court reaffirmed the patent misuse doctrine, finding that a patent holder cannot charge royalties after the expiration of its patent term. In *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), this Court reversed the Federal Circuit and applied the first-sale doctrine to copies of copyrighted

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[12] In 1988, Congress considered a bill that would have prohibited a finding of patent misuse unless the practices "violate the antitrust laws." The language was approved by the Senate, but in the waning days of the 100th Congress, the language was replaced. The final language relates only to tying cases and prohibits a finding of patent misuse unless the patent holder has market power. 35 U.S.C. § 271(d)(5) (2000). For a detailed description of this history, *see* FELDMAN, RETHINKING PATENT LAW at 141; Feldman, *Insufficiency* at 419-21. For a detailed description of the path of House and Senate versions and the final compromise language, see Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: "Blessed Be the Tie?,"* 4 HARV. J.L. & TECH. 1, 2 n.9 (1991).

[13] Patent misuse is the impermissible attempt to expand the time or scope of a patent. *See Blonder-Tongue*, 402 U.S. at 343; *see also* FELDMAN, RETHINKING PATENT LAW at 138.

works made abroad. And in *Quanta*, this Court again reversed the Federal Circuit, finding that method patents were exhausted by the sale of an item that substantially embodied the method. This Court's *Quanta* decision unequivocally held that, "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." 553 U.S. at 638.

These post-*Mallinckrodt* decisions are not only a clear disapproval of the approach taken in *Mallinckrodt*, but also an affirmation of the exhaustion doctrine as articulated by this Court for well over a century: "The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers." *Univis*, 316 U.S. at 252.

C. *Lexmark*: The Federal Circuit's Battle Against Exhaustion Continues

Despite the recent Supreme Court decisions reaffirming the vitality and importance of the exhaustion doctrine, the Federal Circuit's *Lexmark* decision persists in eroding the doctrine to nothing but a default rule, easily circumvented by the patentee at its pleasure. Under *Lexmark*, a patent holder could unilaterally impose restrictions on the first sale of a patented item, so long as those restrictions are "clearly communicated." It could enforce that restriction, as a matter of

patent law, against any downstream purchaser who violates the restriction.

Most striking, the Federal Circuit's *Lexmark* decision turns the hierarchy of judicial authority on its head. Throughout the 53-page *en banc* opinion, the Federal Circuit lectures this Court – both openly and in a veiled manner – suggesting that the Court does not have authority for its longstanding doctrine. For example, the Federal Circuit patiently explains to this Court that, "Congress has not defined the underlying patent-exhaustion rule. Unless Congress has directed the courts to fashion governing rules in a particular statutory context . . . the justification for lawmaking by the federal courts is greatly diminished." 816 F.3d at 733 (citations omitted).

Perhaps part of the Federal Circuit's disapproval stems from its disagreement with certain policies established by this Court through what the Circuit describes as "court-made law." *Id.* at 743. For example, the Federal Circuit complains that this Court's precedent, which creates patent exhaustion but allows patent holders to place restrictions on those who make products for them, "is an extraordinary doctrinal consequence" and effectively makes no sense. *Id.* at 739; *see id.* at 735 ("there is no sound reason . . . requiring a distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product."); *see id.* at 743 ("There is no good reason that a patentee that makes and sells the articles itself should be denied the ability

that is guaranteed to a non-practicing-entity patentee."). Yet, as the dissent properly notes, "[t]he distinction . . . exists in the Court's precedent, and *it is not for us to decide if it is a sound distinction.*" *Id.* at 782 (Dyk, J., dissenting) (emphasis added). Moreover, as noted above, vertical integration is not a requirement of patent law, and patent law has never mandated that patent holders must both invent and manufacture their own products. This Court's precedents reflect that basic tenet.

The Federal Circuit next attempts to limit this Court's decisions to the specific issues presented in the cases. For example, this Court's *Univis* decision reiterated the broad principle that "[t]he first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers." *Univis*, 316 U.S. at 252 (holding that, after the sale of the lens blank, the patent holder could not exercise further control over the article sold). To avoid applying this principle, the Federal Circuit in *Lexmark* first severely limits the *Univis* holding by stating that, "the most the Court ruled . . . was that a vertical price-control restriction was ineffective to preserve patent rights after sales of articles embodying the patents." 816 F.2d at 749. Next, the Federal Circuit claims that "[w]hile *Univis* is controlling on what it decided on the issues before it, we do not think it appropriate to give broad effect to language in *Univis* . . . to support an otherwise-unjustified conclusion here on a question not faced there." *Id.*; *see also id.* at 737 ("*Quanta* did not involve the issue presented here").

As this Court has counseled, however, a court of appeals must not "confus[e] the factual contours of [a Supreme Court decision] for its unmistakable holding" in an effort to reach a "novel interpretation" of that decision. *Thurston Motor Lines, Inc. v. Jordan K. Rand, Ltd.*, 460 U.S. 533, 534-35 (1983) (per curiam). Indeed, "once the Court has spoken, it is the duty of other courts to respect that understanding of the governing rule of law." *Rivers v. Roadway Express, Inc.*, 511 U.S. 298, 312 (1994). Here, the Court has been speaking for over 150 years on the patent exhaustion doctrine, uniformly affirming and upholding the doctrine to terminate the patent holder's ability to control the use or disposition of the patented article after the initial sale.

By limiting this Court's decisions to the facts of those cases, the Federal Circuit undermines the entire exhaustion doctrine. For example, in quite direct language, the Circuit refuses to accept this Court's own explanation that the exhaustion doctrine is settled. Specifically, the *Lexmark* opinion first quotes this Court's language that, "[i]t is well settled, as already said, that where a patentee makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase." *Id.* at 748 (quoting *United States v. General Electric Co.*, 272 U.S. 476, 489 (1926)). *Lexmark* then declares, "[w]e read that language to deem 'settled' only what was settled in the cited precedents – a patentee's sales *without restrictions* exhaust patent rights in the item sold." *Id.* (emphasis in original). In other words, the Federal Circuit attempts to say that

while this Court has determined that patent holders can exercise no future control after a sale, it just means patent holders can exercise no future control after a sale – unless they decide to exercise future control. In reaching its decision, the Federal Circuit completely reverses this Court's longstanding doctrine, opening the door for patent holders to avoid the impact of the exhaustion doctrine.

The Federal Circuit also tries to buttress its approach by reading an inordinate amount into a single word from this Court's language – "authorized." The exhaustion doctrine specifies that "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights." *Quanta*, 553 U.S. at 638. Similarly, § 271 of the 1952 Patent Act provides that sale or use of a patented article "without authority" constitutes infringement. 35 U.S.C. § 271(a) (1952) ("whoever without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent"); *see Lexmark*, 816 F.3d at 734-35. Referencing these precedents, the Federal Circuit reaches the circular conclusion that whenever downstream users act "contrary to the . . . limits on the authority conferred at the time of the original sale, [their actions] remain unauthorized." *See Lexmark*, 816 F.3d at 726; *see also id.* at 739-42 (engaging in extensive discussion of the word "authorized").

The Federal Circuit's interpretation places far more weight on the slender word "authorized" than it could ever bear. Historically, the term "authorized sales" entered the exhaustion doctrine to clarify that a

patent holder need not do its own manufacturing, and that exhaustion will apply only after those "authorized" to handle the manufacturing for the patent holder have sold the item. Specifically, at least as far back as the 1938 case of *General Talking Pictures*, it has been clear that a patent holder need not do its own manufacturing; vertical integration, in which one company must invent, manufacture, and sell, all on its own, is not required under the Patent Act. As a result, exhaustion only applies after those "authorized" to do the manufacturing for the patent holder to have sold the item. *See General Talking Pictures*, 304 U.S. 175. This is the concept embodied in the notion that exhaustion does not apply until an item enters the "channels of trade." *See Motion Pictures Patents*, 243 U.S. at 516. Thus, defining the term "authorized" requires no particular heavy lifting. In modern commerce, the word "authorized" takes on distinct importance, given the problem of rampant knockoff goods. Quite simply, a patent holder should not be judged to have exhausted its patent rights when goods enter the stream of commerce without anyone ever receiving permission from the patent holder.

The Federal Circuit reads *General Talking Pictures* as deciding that a patent holder can maintain its restrictions against downstream purchasers, as long the purchasers know that such restrictions exist. Given the decision's emphasis on the knowledge of the parties, however, *General Talking Pictures* is best understood as early stirrings of the induced infringement

doctrine.[14] The case was a harbinger of the codification of induced infringement in the 1952 Patent Act, with inducement's all-important requirement of knowledge. Importing knowledge issues into patent law's general strict liability framework would seriously distort the doctrines. Thus, to the extent that *General Talking Pictures* engenders confusion, its meaning can best be appreciated in the induced infringement context.

None of this, however, requires the elaborate twists and turns to which the Federal Circuit resorts in using the word "authorized" as part of its latest effort to avoid the exhaustion doctrine. The approach brings to mind this Court's admonishment, in the context of patentable subject matter, that the interpretation of patents should not depend on "the draftsman's art." *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2360 (2014) (citing *Mayo Collaborative Svc. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012)). This Court recently echoed that admonishment in the context of patent exhaustion, cautioning against "the danger of allowing such an end-run around exhaustion." *Quanta*, 553 U.S. at 629-30 ("By characterizing their claims as method instead of apparatus claims, or

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[14] *See, e.g.*, DONALD CHISM, CHISM ON PATENTS § 19.04[3][i] (2015) (*General Talking Pictures* "might be explained as an instance of active inducement of infringement and thus reconciled with the first-sale doctrine of *Adams v. Burke*"); Brief for Intellectual Property Professors and American Antitrust Institute as Amici Curiae Supporting Petitioners, *Lexmark Int'l Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016) 2016 WL 1639989 at *14-15 ("the case is better understood as saying that General Talking Pictures *induced* Transformer Company's infringement, and therefore was indirectly liable.") (emphasis in original).

including a method claim for the machine's patented method of performing its task, a patent drafter could shield practically any patented item from exhaustion."). Clever interpretation of the term, "authorized," should not be allowed to undermine 165 years of this Court's exhaustion doctrine. Nor should it be allowed to open the door for drafting methods that would shield practically any patent holder from the doctrine.

CONCLUSION

The Federal Circuit in *Lexmark* has exceeded its role as a subordinate court by failing to follow the well-settled exhaustion doctrine established by this Court. The doctrine is clear. The initial sale of a patented item "terminates all patent rights in that item" (*Quanta*, 553 U.S. at 625), and that means a patent holder is not permitted under patent law to control the downstream uses of the patented item after the initial sale through any form of restrictions, conditions or other limitations. The Federal Circuit opinion should be reversed.

Respectfully submitted,

ROBIN FELDMAN
Counsel of Record
Harry & Lillian Hastings Professor of Law &
Director of the Institute for Innovation Law
UNIVERSITY OF CALIFORNIA
HASTINGS COLLEGE OF THE LAW
200 McAllister St.
San Francisco, CA 94102
(415) 565-4661
feldmanr@uchastings.edu

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LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF 44 LAW, ECONOMICS AND BUSINESS PROFESSORS AS AMICI CURIAE IN SUPPORT OF RESPONDENT

JONATHAN M. BARNETT
Professor of Law
University of Southern California Gould School of Law
699 Exposition Blvd.
Los Angeles, CA 90089
(213) 740-4792
jbarnett@law.usc.edu

TED M. SICHELMAN
Counsel of Record
Professor of Law
University of San Diego School of Law
5998 Alcala Park
Guadalupe Hall
San Diego, CA 92110
(619) 260-7512
tsichelman@sandiego.edu

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INTEREST OF AMICI CURIAE

Amici are law, economics, and business professors who teach, research and write in the areas of patent law, contract law, and innovation policy.[1] The professors are committed to the development of patent law doctrine that best promotes innovation and competition. Amici have no personal interest in the outcome of this case. A full list of amici is appended to the signature page.

SUMMARY OF THE ARGUMENT

Patent transactions are a key component of modern technology markets, enabling patent owners and firms to work together in the commercialization of new technologies on the costly and risky path from "lab" to "market." Those transactions rely on the ability to enter into secure legal relationships that match innovators with a complex sequence of partners in the commercialization process, including manufacturers, distributors, retailers and other entities, each of which contributes specialized expertise at a different step in the supply chain. Those transactions, and underlying legal relationships, promote patent law's fundamental goals by (1) supporting innovators' ability to earn returns on their research and development activities and (2) benefiting consumers by

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[1] Pursuant to Supreme Court Rule 37.6, *amici curiae* states that no counsel for any party authored this brief in whole or in part. The Center for the Protection of Intellectual Property, an academic center at the Antonin Scalia Law School at George Mason University, paid for the printing and filing of this brief. No other person or entity, or its counsel, made a monetary contribution to the preparation or submission of this brief. *Amici curiae* gave timely notice to Petitioners and Respondents of their intent to file this brief, who have consented to the filing of this brief; their written consents are on file with the Clerk.

enabling innovators and other parties to craft production and distribution structures that can deliver patented technologies to the market as efficiently as possible. *See* Sean O'Connor, *IP Transactions as Facilitators of the Globalized Innovation Economy,* in Rochelle Dreyfuss, Diane L. Zimmerman and Harry First, eds., Working Within the Boundaries of Intellectual Property 203-05, 216-17, 227-28 (Oxford Univ. Press 2010); Robert W. Gomulkiewicz, *The Federal Circuit's Licensing Law Jurisprudence: Its Nature and Influence,* 84 Washington Law Review 199, 204-08 (2009).

The exhaustion doctrine plays a critical and two-fold role in the patent transactions that support supply chains in technology markets. On the one hand, the exhaustion doctrine protects downstream users from unfair surprise to the extent those users are unaware of use restrictions agreed upon at the initial point of sale. In so doing, the exhaustion doctrine can reduce transaction costs, including information costs, in the supply chain. On the other hand, the ability to customize use restrictions, as well as associated pricing terms at various points on a supply chain, enables innovators, producers and distributors to craft the most efficient structure for creating and commercializing a patented technology. For example, efficient customization may take the form of customer-specific pricing that enables a manufacturer to more widely distribute a patented product.

Mandatory application of the exhaustion doctrine to all patent transactions, without any possibility of contractual waiver or modification, would serve the objective of preventing unfair surprise and reducing transaction costs, but not the objective of efficient contracting throughout the technology supply chain. A

nuanced application of the exhaustion doctrine can promote both objectives.

This Court has never addressed directly whether the exhaustion doctrine precludes enforcement of any use limitation whatsoever in a patent sale transaction. While the Court's decisions on exhaustion are not perfectly uniform, the principles behind those decisions are consistent with the approach adopted by the Federal Circuit below. Following that approach, the exhaustion doctrine applies *presumptively* in patent sale transactions and, outside of a limited number of anticompetitive restraints, can therefore be contractually waived.

Only a presumptive approach can promote the multiple policy objectives behind the exhaustion doctrine. If parties are silent and no conditions are expressly agreed upon at the point of first sale, then the presumption survives and downstream users are free to use the patented article without restriction. In that circumstance, downstream users are protected from unfair surprise, thereby minimizing transaction costs. However, if the patent owner clearly communicates use restrictions at the point of sale, and downstream users are made aware of those restrictions, then the presumption is lifted and exhaustion does not apply, barring exceptional circumstances. In that case, the patent owner can craft customized usage terms for downstream partners in the commercialization process. This approach provides the market with legal certainty, mitigates the risk of unfair surprise, reduces transaction costs, and enables patent owners and other entities to negotiate over the terms of use, and associated pricing terms, to arrive at mutually agreeable bargains. Subject to the constraints required to address notice and reasonableness concerns, contractual latitude in patent transactions facilitates innovators' ability

to earn returns on their investments in research and development, attracts outside capital to fund innovators' activities, and promotes access to patented technologies by offering use and pricing terms tailored to a diverse population of manufacturers, distributors and consumers. *See* O'Connor, *supra,* at 203-05, 227-28; Gomulkiewicz, *supra,* at 204-08.

A presumptive understanding of the exhaustion doctrine is consistent with this Court's decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 533 U.S. 617 (2008). In that case, this Court barred the patent owner from enforcing certain use restrictions in connection with the sale of a patented product to a downstream purchaser. Critically, however, this Court's determination in *Quanta* was not based on a categorical bar on the enforcement of all manner of post-sale use limitations. Unlike the facts of this case, *Quanta* involved a circumstance in which the patent owner failed to expressly include the claimed restraints in the governing agreement with the initial licensee. Although a clause in an ancillary agreement provided that the licensee would provide notice of the restraint to downstream users, no such notice obligation was made a condition in the *license* agreement. Therefore, based on the contractual agreements that regulated the legal relationship between the patent owner and the licensee, the Court concluded that the authorization given to the licensee to sell the patentee's products was never specifically conditioned on the claimed restraints. *Id.* at 636-37. Given that critical omission, the exhaustion doctrine can be understood to have presumptively applied, thereby precluding the patent owner from enforcing the claimed use restrictions in connection with the licensee's subsequent sale to a downstream purchaser. However, if the downstream restriction had been made an express condition of the licensee's authorization to sell the

patented component in the license agreement, then, based on this Court's prior holdings, the limitation would have been valid.

While we recognize that *Quanta* has given rise to a variety of reasonable interpretations among the lower courts, as well as lawyers and scholars, this is the only interpretation of *Quanta* that is consistent with this Court's holding in *General Talking Pictures v. Western Electric Co.*, 304 U.S. 175, *aff'd on reh'g*, 305 U.S. 124 (1938). In *General Talking Pictures*, this Court upheld the enforcement against a downstream purchaser of use restrictions set forth in the agreement with the initial licensee, *id.*, at 125-27. Because the use restrictions were expressly communicated to the licensee, and the subsequent purchaser was made aware of those restrictions, *id.* at 126, the presumption of exhaustion can be understood to have been lifted, and the patent owner could enforce the agreed-upon restrictions. If this Court were to adopt a mandatory, rather than presumptive, understanding of the exhaustion doctrine, it would run counter to the Court's determination in *General Talking Pictures*.

The Federal Circuit also held that the patent exhaustion doctrine does not apply to foreign sales authorized by the U.S. patentee. This holding is consistent with the territorial scope of the patent statute as well as this Court's opinion in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). While *Kirtsaeng* applied copyright law's first sale doctrine to foreign sales, that doctrine has been codified by Congress, 17 U.S.C. § 109(a), and explicitly limits the copyright owner's exclusive distribution rights. There is no such analogue in the patent statute. If this Court were nonetheless to extend the exhaustion doctrine to foreign patent sales, it should then apply exhaustion

doctrine following the same presumptive approach applicable in the domestic context.

The Federal Circuit's holdings are consistent with this Court's precedents, advance the fundamental objectives of the patent system, and should be affirmed.

ARGUMENT

I. Presumptive Application of the Exhaustion Doctrine Supports the Efficient Dissemination of New Technologies

Patent exhaustion doctrine provides that the initial authorized sale of a patented article terminates the patentee's rights against subsequent resales or uses of that article. *See Bloomer v. McQuewan,* 55 U.S. (14 How.) 549-50 (1852) (uses);[2] *Adams v. Burke,* 84 U.S. (17 Wall.) 453, 455-56 (1873) (uses); *Keeler v. Standard Folding Bed Co.,* 157 U.S. 659, 661 (1895) (resales). This doctrine, however, has always had important limits. In *Mitchell v. Hawley,* 83 U.S. (16 Wall.) 544, 547 (1872), this Court held that the exhaustion doctrine applies to sales of patented articles "without any conditions", suggesting a distinction between conditional and unconditional sales. In *U.S. v. Gen. Electric Co. et al.,* 272 U.S. 476, 489 (1926), this Court further held that exhaustion is not triggered by patent license transactions (as distinguished from sales). And in *Gen. Talking Pictures, supra,* at 181, this Court clarified that the

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[2] We note that recent scholarship finds that *Bloomer* did not involve the sale of a physical good; rather, it involved a franchise-like system of assignment and license agreements to manufacture machines covered by the licensor's patented technology. *See* Sean M. O'Connor, *Origins of Patent Exhaustion: Patent Farming, Jacksonian Politics, and the Basis of the Bargain* (Working Paper 2017), http://ssrn.com/abstract=2920738.

exhaustion doctrine does not apply to a licensing agreement simply because it imposes conditions on subsequent use.

At the same time, we recognize that this Court has also declined to enforce certain use limitations in patent licenses against subsequent users of patented products. *E.g., Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917); *United States v. Univis Lens Co.*, 316 U.S. 241 (1941); *Quanta Computer, Inc. v. LG Electronics, Inc.*, 533 U.S. 617 (2008).

As we explain further below in Section I.C., the seeming tension between this Court's cases can be reconciled on two grounds. First, this Court has refused to enforce unlawful use limitations that otherwise would violate the antitrust laws or would constitute patent misuse. *E.g., Motion Picture Patents, supra*; *Univis Lens Co., supra*. Second, this Court has declined to enforce restrictions that were not specifically and expressly communicated in the license agreement at the initial point of sale. *E.g., Quanta, supra*. Importantly, the instant case therefore provides an opportunity for the Court to clarify the application of the exhaustion doctrine to the patent transactions that play such a critical function in modern technology markets.

Following the principles set forth in this Court's decisions relating to the exhaustion doctrine (which we discuss in further detail in Section II), the Federal Circuit held below, *Lexmark Int'l, Inc. v. Impression Products, Inc. et al.*, 816 F.3d 721, 726 (Fed. Cir. 2016), that the exhaustion doctrine generally does not apply to sales of patented articles made subject to conditions that are expressly communicated and otherwise lawful. Under the Federal Circuit's approach, the exhaustion doctrine effectively operates as a presumption in any sale transaction involving a patented article—meaning, the parties are free to modify

or waive that presumption by agreement. Only a presumptive, rather than mandatory, application of the exhaustion doctrine is consistent with its underlying policy rationale.

The exhaustion doctrine is not designed to categorically deny patent owners the ability to enter into customized relationships with downstream entities. Importantly, parties may agree upon different temporal or geographic restrictions, as well as appropriately calibrated pricing terms, in order to commercialize efficiently a patented technology. Downstream users can differ significantly in the value they place on the technology, the purposes for which they wish to purchase the technology, financial resources, and willingness to bear the risk of adopting the technology. *See* O'Connor, *supra,* at 206-07, 216-227. Some entities may prefer to purchase full use of the technology at a higher price; other entities may prefer to purchase limited use at a lower price. *See* Gomulkiewicz, *supra,* at 207-08. Any mandatory application of the exhaustion doctrine to all post-sale restraints would risk disrupting modern technology markets that rely on complex supply chains in which multiple entities, each having specialized expertise, make discrete contributions toward the design, production, assembly and distribution of a product on its path to the retail shelf.

A. Presumptive Application of the Exhaustion Doctrine Does Not Result in Double Recovery

It is sometimes argued that a patent owner may enjoy "double recovery" by using post-sale restraints to extract a royalty at two or more stages of a supply chain: for example, once when the patented article is first sold, and

again when it is resold. This line of reasoning rests on a legal misunderstanding as well as an economic fallacy.

First, the argument that the initial payment by a licensee or consumer is in fact the complete "reward" contemplated by the Patent Act makes little sense in today's economy of complex supply chains. When patent owners primarily manufactured and sold relatively simple mechanical products directly to consumers, the profit realized upon sale was essentially that needed to induce the initial invention. However, as patents covered components of products, and as patent owners worked through intermediaries to commercialize and sell inventions, this picture became more complicated—and along with it—the notion of the "reward" sufficient to induce invention and the commercialization efforts required to bring a new technology to market.

Specifically, as supply chains became more complex, manufacturers, wholesalers, retailers, and consumers may use patented goods—especially patented components—in numerous different ways and contexts, deriving different values from the same or similar underlying good. For instance, a semiconductor chip in a computer may provide much greater value than the same or similar chip in a video camera. In patent law, the optimal reward for invention will depend on the patent owner's ability to calibrate pricing in relation to the value delivered to different users of the same technology. When value varies widely along a supply chain, the initial payment will not generally lead to optimal rewards. Even if the patent owner attempts to implement differential pricing at the initial point of sale, such an approach will often unravel due to "arbitrage" behavior by higher-valuing users who masquerade as lower-valuing users, either for their own use or subsequent resales. Indeed, that is essentially the strategy employed

by the purchasers in the instant case. In contrast, the ability to assess value through the entire supply chain helps to ensure that users pay for the value derived from their specific uses of the patented good.

Second, precluding the patent owner from assessing royalties at multiple points on the supply chain will typically result in the patent owner raising the initial price or license fee for the patented good to compensate for the loss of downstream profits. Specifically, any patent owner will seek to extract the profit-maximizing—which is not necessarily the highest—aggregate royalty from sales of its patented technology as that technology travels through the supply chain leading to the target consumer market. Whether that aggregate royalty is paid in a single amount, or divided into multiple payments, the profit-maximizing amount generally remains the same.[3] Even assuming that a patent owner has market power, it would be self-defeating to use that power to impose a "stack" of multiple royalties resulting in a total price for the consumer that would unduly depress demand and fail to maximize profits. Hence, preventing the patent owner from imposing patent

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[3] When transaction costs of patent sales or licensing are large, then the profit-maximizing amount may vary, but for patented technology delivered through supply chains, those transaction costs will generally be substantially less than the royalty and other amounts being negotiated in any particular sale or license. This is because negotiations relating to downstream use restrictions typically occur between a patent owner and sophisticated intermediaries responsible for selling patented products or services to numerous end-users. It is an infrequent situation in which a patent owner would—in addition to dealing with downstream manufacturers, wholesalers and retailers—seek to garner further royalties by transacting directly with an individual end-user.

royalties at multiple points on a supply chain will simply induce it to extract all available profits through a single payment at the point of first sale. *See* Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective,* 66 N.Y.U. Annual Survey of American Law 487, 514-515 (2011).

B. Mandatory Application of the Exhaustion Doctrine Can Harm Consumers

Arguments that exhaustion doctrine protects consumers by limiting a patentee's ability to impose multiple royalties are misguided in the sense that mandatory exhaustion typically results in fewer consumers purchasing patented technology. We agree that this smaller number of consumers who can actually afford to purchase the patented product would often prefer mandatory exhaustion to presumptive exhaustion. Specifically, because mandatory exhaustion mandates a single price, high-valuation (who will often be higher-income) consumers would typically pay less than they would be willing to pay, allowing them to retain more "consumer surplus" than under a presumptive regime. However, the additional surplus for these high-valuation consumers will frequently come at a substantial price—foreclosing lower-valuation (who will often be lower-income) consumers from purchasing the patented technology.

In the remainder of this section, we explain in more detail how consumers, and innovation markets more generally, would be *harmed* by compelling patent owners to extract all monopoly profits at the point of first sale. This can occur in four ways.

First, arbitrarily inflating the royalty paid by the initial purchaser—frequently, in modern technology markets, an intermediate user such as a component manufacturer—would tend to inhibit entry by smaller and less established production and distribution intermediaries with reduced ability to bear the cost and risk associated with a significant royalty obligation. While an intermediate user may be able to pass on its royalty burden to entities located further downstream, there is no assurance that market conditions will enable it to do so. By contrast, allowing patent owners to agree upon customized use restrictions with downstream users would enable patentees to reduce the royalty burden (and associated financial risk) for the initial intermediate user. This is especially so, given that the patent owner would then expect to assess royalties at other points on the supply chain (up to the aggregate royalty burden that maximizes the patent owner's profits). Artificially inflating the royalty at the point of first sale could harm consumers insofar as discouraging entry at intermediate points on a technology supply chain inhibits the competitive pursuit of the lowest-cost production and distribution processes for delivering a new technology to market.

Second, compelling patent owners to extract all available monopoly profits through a single transaction with the intermediate user that happens to be situated at the top of the supply chain will tend to result in excessively high prices for consumers as a whole. Because charging a single price at the point of first sale precludes the patent owner from customizing prices for downstream users, mandatory exhaustion will generally result in *fewer* consumers being able to purchase the patented product. In other words, in a regime of mandatory exhaustion, initial prices will tend to be set high in order for the patent owner

to maximize its profits. These high prices will persist regardless of downstream competition—which, by definition, must be profitable to occur. By contrast, in a regime of presumptive exhaustion, patent owners will tend to set prices lower, because the patent owner can recoup additional profits by charging downstream license fees to the highest-valuation users. These initially low prices increase access by *expanding* the market of available consumers. *See* Olena Ivus, Edwin L.-C. Lai & Ted Sichelman, *An Economic Model of Patent Exhaustion* (Working Paper 2017), http://ssrn.com/abstract=2921443.

Third, and related to the previous point, precluding patent owners from enforcing customized terms of use at downstream points on the supply chain, and from appropriately adjusting prices to reflect those terms of use, can operate to the particular disadvantage of lower-intensity and lower-income consumers. This outcome is illustrated by the facts of this case. As the Federal Circuit correctly observed below, *see Lexmark Int'l*, 816 F.3d, at 727, use of the post-sale restriction by the patent owner (Lexmark) offers consumers a choice between a lower-price option, which involves the single-use/no-resale restriction, and a higher-price option, which does not include any such restriction. If Lexmark cannot enforce the single-use/no-resale restriction, then consumers would lose that choice since Lexmark could only offer consumers the restriction-free, but higher-priced, option. While Lexmark's profit-maximizing uniform price may then be lower than its current price on the restriction-free option, that price would certainly be higher than the current price on the restricted-use option. Precluding Lexmark from enforcing post-sale use restrictions is analogous to a rule that would require airlines to offer passengers only one

class of seating ("coach" or "first class", but not both), in which case some coach passengers would most likely be priced out of the market. Similarly, in the context of patented technology markets, mandatory application of the exhaustion doctrine without the possibility of contractual waiver would almost certainly *raise* prices for some users, some of whom may then decline to purchase altogether.

Fourth, mandatory application of the exhaustion doctrine can harm consumers by inducing patent owners to avoid the doctrine through less efficient production and distribution structures. Patent owners could do so in multiple ways. Given that licenses uncoupled with sales do not trigger exhaustion, see *Bloomer*, 55 U.S., at 549-50, patent owners may favor production and distribution structures consisting of pure licensing—in effect, inducing patent owners to enter into a complex series of lease rather than sale transactions with downstream entities. While this mechanism could be effective in certain circumstances, this can be cumbersome and failure-prone since it compels the patent owner to effectively rely upon a sequence of licensees and sub-licensees to abide by its preferred terms of use throughout the supply chain. *See* John F. Duffy & Richard Hynes, *Statutory Domain and the Commercial Law of Intellectual Property*, 102 VA. L. REV. 1, 58–59 (2016); O'Connor, *supra*, at 225-27. Alternatively, patent owners can enter into deferred payment transactions that are nominally structured as leases but effectively operate as sales. Finally, patent owners may avoid mandatory exhaustion by adopting vertically integrated structures that eliminate interaction with third-party entities in the commercialization process. That is not only a practically infeasible solution in many modern technology markets

(especially for smaller competitors) but would result in less, not more dissemination, of new technologies.

As illustrated by these examples, the arbitrary treatment of economically equivalent transactions that would result from mandatory application of the exhaustion doctrine is likely to significantly distort business planning. As a consequence, patented technologies may reach the commercial market through production and distribution structures that are unnecessarily costly, thereby increasing the price ultimately paid by consumers. It is for this type of reason that, four decades ago, this Court cautioned against "formalistic line drawing" in *Continental T.V., Inc. v. GTE Sylvania,* 433 U.S. 36, 59 (1977), when it rejected the differential treatment of sale and non-sale (for example, license/lease) transactions for purposes of assessing liability under the Sherman Act. While *Sylvania* is an antitrust decision, formalistic distinctions that lack any underlying policy rationale similarly provide an unsound foundation for this Court's application of the patent exhaustion doctrine.

C. Presumptive Application of the Exhaustion Doctrine Addresses Notice and Other Concerns

Notwithstanding the efficiencies attributable in general to post-sale restraints (a point widely recognized in this Court's decisions on vertical restraints under antitrust law, starting with *Sylvania,* 433 U.S., at 54-56), it is sometimes argued that only a blanket application of the exhaustion doctrine would conform to the common-law "rule" against restraints on alienation. This argument favors wooden formalism over a functionalist understanding of the nuanced rationale behind the exhaustion doctrine. We recognize that the common law's historical aversion to

restraints on alienation reflects a legitimate concern that post-sale restraints on patented goods may result in unfair surprise and related transaction costs for uninformed downstream users. However, in this context, it is important not to lose sight of two major qualifications to this concern.

First, as this Court observed in *Sylvania*, 433 U.S., at 53 n.21, and again in *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877, 888-89 (2007), the common-law approach is "usually associated with land" and we "should be cautious about putting dispositive weight on doctrines from antiquity but of slight relevance." *Id.*, at 888. Although there is an ongoing debate as to whether patents ought to be treated as a species of real property,[4] even if they are, the doctrine against restraints on alienation does not prevent parties from imposing reasonable downstream use and sale limitations. *See, e.g.*, Restatement (Third) of Property (Servitudes) § 3.5 (2000) ("(1) An otherwise valid servitude is valid even if it indirectly restrains alienation by limiting the use that can be made of property . . .(2) A servitude that lacks a rational justification is invalid."); *id.* § 3.4 (2000) ("A servitude that imposes a direct restraint on alienation of the burdened estate is invalid if the restraint is unreasonable. Reasonableness is determined by weighing the utility of the restraint against the injurious consequences of enforcing the restraint."). Indeed, the original rule precluded only severe restrictions, such as a blanket obligation against resale. 2 Coke, Institutes of the Laws of England § 360 (Day ed. 1812). In contrast, reasonable restrictions justified by a legitimate business

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[4] *E.g.*, Adam Mossoff, *A Simple Conveyance Rule for Complex Innovation*, 44 Tulsa L. Rev. 707 (2009).

purpose were not subject to the doctrine. *Mitchel v. Reynolds*, 24 Eng. Rep. 347 (Q.B. 1711).

Second, the reasonable notice concerns reflected by the common law's distaste for restraints on alienation do not justify a mandatory application of the exhaustion doctrine. Rather, these concerns explain why the exhaustion doctrine applies presumptively in patent sale transactions. Exhaustion effectively operates as a penalty that puts the burden on the patent owner to clearly specify all use restrictions at the point of initial sale and take steps so that subsequent purchasers have adequate notice of those restrictions. If that burden is met, however, then notice concerns are mitigated or eliminated and the patent owner can enforce clearly specified, reasonable limitations against downstream users.

Notice concerns account for this Court's decisions in *Quanta* and *General Talking Pictures*, which involve similar fact patterns but reach different exhaustion outcomes. In *Quanta*, the patent owner failed to expressly condition the licensee's (Intel's) resale authority in the governing license agreement. *Quanta*, 533 U.S., at 636-37. While the patent owner did require Intel to give notice of the claimed restraints to Intel's customers, the relevant provision did not appear in the license agreement and breach of that provision did not constitute a breach of the license agreement. *Id.* Given the lack of any express conditionality in the specific authorizing language in the governing license agreement, the exhaustion presumption can therefore be understood to have been preserved and Intel's first sale transaction to downstream users terminated the patent owner's rights in the patented articles. By contrast (and as this Court noted in *Quanta*, 533 U.S., at 636), in *General Talking Pictures*, the license agreement specified the conditions on downstream use and users were given

notice of those conditions. As a result, the exhaustion presumption was lifted and the patent owner could enforce its use restrictions against the downstream user.

The Federal Circuit followed this same presumptive approach to the facts of this case, in which the patent owner conspicuously communicated the use restrictions to the purchaser at the point of sale. Contrary to the facts in *Quanta* (in which this Court declined to enforce a use restriction) and like the facts in *General Talking Pictures* (in which this Court upheld such a restriction), the patent owner (Lexmark) clearly provided for a reasonable use limitation (the single-use/no-resale condition) at the time of sale and, as the parties stipulated, the purchasers were given notice of that limitation at the time of sale. *See Lexmark Int'l, Inc.*, 816 F.3d, at 728 ("[I]t is undisputed that all end users receive adequate notice of the restriction supporting the discounted price . . ."). Applying exhaustion to this sale would not only give the purchasers a windfall—who elected the lower-priced, restricted-use version of the patent owner's product—but, more fundamentally, would impede patent owners' ability to engineer the most efficient transactional and pricing structures for delivering new technologies to consumers.

It is sometimes argued that exhaustion doctrine can be used to deter practices that are, or are closely related to, antitrust violations. For instance, in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), this Court applied the exhaustion doctrine to preclude the enforcement of a tying clause in a patent license against a subsequent purchaser. Similarly, in *United States v. Univis Lens Co.*, 316 U.S. 241 (1941), the Court applied the exhaustion doctrine to bar suit when a patent license provided for minimum price terms that violated antitrust

law (as then understood in governing case law[5]). Although we agree that antitrust violations or other illegal action should preclude suit, it is unnecessary to resort to exhaustion doctrine to achieve this purpose. Rather, courts can already make use of the patent misuse doctrine to police conduct that raises competitive concerns but would not necessarily be captured by the antitrust laws. See Wentong Zheng, *Exhausting Patents*, 63 UCLA L. Rev. 122 (2016) (proposing a rule of presumptive exhaustion coupled with a patent misuse test to screen out unreasonable restrictions). In any event, this Court should not extrapolate from its limited application of the exhaustion doctrine to bar suits grounded upon illegal anticompetitive behavior to a general per se ban on all manner of downstream restrictions, particularly when they do not present anticompetitive or similar concerns, as in the instant case.

II. Presumptive Application of the Exhaustion Doctrine Is Consistent with this Court's Precedents

This case provides an important opportunity for this Court to clarify the application of the exhaustion doctrine to conditional sales of patented articles. While this Court's

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[5] Specifically, the Court applied a rule of per se illegality against resale price maintenance clauses. This is no longer the appropriate legal standard, pursuant to this Court's decision in *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007). Similarly, we note that, in *Univis*, this Court applied an unqualified rule of per se illegality against a tying clause. This too is no longer the appropriate legal standard, pursuant to this Court's decision in *Jefferson Parish Hosp. Dist. v. Hyde*, 466 U.S. 2 (1984).

precedents with respect to exhaustion do not provide a perfectly uniform body of case law, a presumptive understanding of the exhaustion doctrine best reflects the principles that underlie those precedents. Moreover, as explained above, the presumptive approach is the only approach that is consistent with the nuanced rationale behind the exhaustion doctrine and the practical operation of modern technology markets.

An uninformed reading of some of the language in this Court's opinions, particularly when taken out of context, might lead one to believe that exhaustion is mandatory. For instance, in *Bloomer v. Millinger*, 68 U.S. 340, 350 (1863), this Court remarked that "[patentees] are entitled to but one royalty for a patented machine." Yet this Court has long recognized the importance of the distinction between conditional and unconditional sales in applying the exhaustion doctrine. In *Mitchell*, 83 U.S., at 548, decided in 1872, this Court confined the exhaustion doctrine to unconditional sales. Referring to "patented implements or machines", this Court held that "[s]ales of the kind may be made by the patentee with or without conditions . . . but *where the sale is absolute, and without any conditions*, the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out, or he may repair or improve upon it as he pleases, in same manner as if dealing with property of any kind" (emphasis added). *Id.* Similarly, in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917), this Court held: "[T]he right to vend is exhausted by a single, *unconditional* sale, the article being sold thereby carried outside the monopoly of the patent law . . ." (emphasis added).

In *General Talking Pictures*, decided in 1938, this Court addressed application of the exhaustion doctrine to a fact

pattern that is similar in material part to that of the present case. Transformer Company had a license to manufacture and sell patented amplifiers solely for certain home uses. *General Talking Pictures*, 305 U.S., at 125-26. Transformer Company subsequently manufactured the amplifiers for commercial use in theatres. Pictures Corporation purchased the amplifiers from Transformer Company for that commercial use, knowing that the sale violated the license. *Id.* The Court found that the licensee (Transformer Company) had infringed the patent by violating the license, *id.* at 126, and that, "as Pictures Corporation ordered, purchased, and leased [the amplifiers] knowing the facts, it also was an infringer." *Id.* This key precedent in this Court's jurisprudence on the exhaustion doctrine stands for the proposition that a restraint set forth in a license between the patentee and an initial upstream licensee binds subsequent downstream purchasers, so long as those purchasers are made aware of the restraint (and the restraint is otherwise lawful).[6]

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[6] As we noted above, in *United States v. Univis Lens Co.*, 316 U.S. 241 (1941), the Court held that the exhaustion doctrine precluded enforcement of downstream limitations by the patentee against retailers and wholesalers. While that decision stands in some tension with *General Talking Pictures*, even if the Court had held that the exhaustion doctrine did not preclude enforcement of the use limitations at issue in *Univis*, any such determination would have been moot given that the Court had found those terms to be illegal under antitrust law. As such, we believe that *Univis*—as well as the Court's decision in *Motion Picture Patents*, which, also as noted above, similarly involved a clause deemed under then-governing law to be an antitrust violation—should simply be read as barring suit when the patent owner seeks to enforce terms that are otherwise

In *General Talking Pictures,* this Court explicitly elected not to address the related circumstance in which the patentee directly sold its product to the end-user but subject to the same use restriction. *General Talking Pictures*, 305 U.S., at 127. The Federal Circuit's decision below applies the reasoning behind *General Talking Pictures* to precisely this circumstance. Consistent with the distinction between conditional and unconditional sales that this Court has recognized since *Mitchell,* 83 U.S., at 548, the Federal Circuit held that the exhaustion doctrine does not preclude enforcement of the conditions set forth in a patent sale transaction, so long as the conditions specified at the point of sale are clearly communicated (and otherwise lawful) and adequate notice is provided to subsequent purchasers. *Lexmark Int'l, Inc.,* 816 F.3d, at 726.

That standard, which addresses the notice concerns discussed above, is satisfied in this case. The patent owner (Lexmark) conditioned use of its patented product on the buyer's agreement to certain use restrictions, which were in turn reflected in a lower price as compared to the same product offered without those restrictions. Under *General Talking Pictures,* this outcome would necessarily result if Lexmark had structured its relationship with purchasers as

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unlawful, which therefore justifies an equitable preclusion of suit. That understanding is consistent with a presumptive application of the exhaustion doctrine, which, as noted above, can only be lifted with respect to terms that are specifically communicated and otherwise lawful.

a license/lease. For the reasons described earlier, there is no plausible policy rationale that would justify treating, for exhaustion purposes, a sale transaction differently from an economically equivalent lease transaction.[7]

The Federal Circuit's presumptive application of the exhaustion doctrine in its decision below is consistent not only with *General Talking Pictures* but with this Court's more recent decision in *Quanta*. In *Quanta*, the patent owner (LGE) licensed Intel to make, use and sell components substantially embodying its patents. The license agreement disclaimed any license to Intel's customers to combine those patented components with non-Intel parts. *Quanta*, 553 U.S. at 623. This Court nonetheless rejected the patent owner's infringement claims against Intel's downstream customers because, in the language of the license agreement, LGE had *unconditionally* authorized Intel's sales. *Id.* at 636-37. While an ancillary agreement obligated Intel to provide notice of the use restriction to downstream purchasers, the

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[7] Moreover, while we noted the potential of problematic transaction costs when a patent owner deals directly with end-consumers, *supra* note 3, there is no such concern in this case. Here, Lexmark offered end-consumers two choices: a higher-priced product with no restrictions and a lower-priced product with restrictions. These options removed any need for buyers to incur transaction costs by negotiating with Lexmark. Additionally, there is no allegation of market power in this case that would make Lexmark's effective tying of its cartridges to its ink problematic from an antitrust perspective. To the extent consumers can purchase cartridges without restrictions from other vendors, this also mitigates any concerns with transaction costs. Finally, digital transactions between patent owners and end-users have vastly decreased the transaction costs in customized contracting.

license agreement had not expressly conditioned Intel's authority to sell products embodying LGE's patents on that notice obligation. *Id.* As noted specifically by this Court, this omission distinguished the position of the patentee in *Quanta* from the position of the patentee in *General Talking Pictures. Quanta, supra,* at 636-37. By contrast, in this case, the patent owner (Lexmark) clearly communicated its reasonable conditions at the point of sale and those conditions were known to the subsequent purchasers. Any notice concerns are therefore moot, presumptive application of the exhaustion doctrine can be understood to be lifted, and, given the absence of any antitrust or patent misuse concerns, the patent owner can enforce the post-sale restraint. Any other result would provide a windfall to a purchaser who was fully informed as to, and paid a reduced price that reflected, that restraint.

In sum, starting with this Court's decision in *Mitchell, supra,* in 1872, running though *General Talking Pictures, supra,* in 1938, and concluding with *Quanta, supra,* in 2008, this Court has maintained a distinction between unconditional sales, to which exhaustion certainly applies, and conditional sales, to which exhaustion does not apply so long as the conditions are specifically communicated and are not otherwise unlawful. Critically, a presumptive application of the exhaustion doctrine addresses notice and reasonableness concerns while still providing patent owners and their supply chain partners with the flexibility to engineer production and distribution structures that can most efficiently deliver new technologies to consumers.

III. The Federal Circuit's Decision Reconciles Exhaustion Doctrine with this Court's Treatment of Similar Actions under Antitrust Law

This case also provides an opportunity for this Court to reconcile the treatment of post-sale restraints under patent exhaustion doctrine with the treatment of those same restraints under the antitrust laws. In *Sylvania*, 433 U.S., at 59, a decision issued 40 years ago and the foundation of this Court's treatment of vertical restraints under antitrust law, this Court held that non-price vertical restraints are to be treated under the same standard for purposes of determining liability under the Sherman Act, irrespective of whether any such restraint is implemented through a sale or a non-sale transaction, such as a lease. In *Leegin*, 551 U.S., at 877, this Court extended that reasoning to the antitrust treatment of price-based vertical restraints. These holdings rest on the self-evidently sensible view that the antitrust harm potentially caused by economically equivalent transactions should be examined under the same standard, even if those transactions are executed under different formal structures.

The same reasoning holds true in the context of the exhaustion doctrine. If this Court were to apply exhaustion doctrine in a wholesale fashion that renders unenforceable any post-sale restriction, no matter how clearly any such restriction is communicated to downstream purchasers, patent owners could still effectively implement those restraints. Specifically, the patent owner could enter into a license with an intermediary seller, whose authorization to sell the patented product is made expressly conditional upon the intermediary's advance execution of an identical

license with any subsequent purchaser, and so forth.[8] The result would be economically equivalent, although it would increase transaction costs, contrary to the rationale behind the exhaustion doctrine.

In applying the exhaustion doctrine, the analytical touchstone should be whether the post-sale restraints were sufficiently communicated to the initial purchaser and subsequent purchasers of the patented article. Whether or not those restraints are implemented through a sale agreement, a sequence of licensing and sub-licensing agreements, a sale agreement disguised as a deferred payment license, or any number of other permutations, is immaterial from an economic perspective and should therefore be a matter of indifference from a legal perspective.

It is sometimes argued that eliminating the distinction between sale and non-sale (including lease) transactions for purposes of the exhaustion doctrine would render exhaustion doctrine superfluous. The reason given is that any post-sale restraint relating to a patented article would then always be enforceable, unless it were deemed unlawful under the antitrust laws or some other body of law. Indeed, in its decision below, the Federal Circuit states that, even if exhaustion concerns are absent, post-sale restraints must be "otherwise lawful" to be enforceable, suggesting that any such restraint must conform to applicable antitrust and other laws, *Lexmark*, 816 F.3d, at 735, citing *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700,

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[8] To ensure injunctive relief, the patent owner can contract with a third-party manufacturer, such that title to the underlying goods only transfers from the manufacturer to the intermediary seller upon execution of a restrictive license with a downstream purchaser.

703 (Fed. Cir. 1992). However, this does not mean that a presumptive approach renders the exhaustion doctrine superfluous. For example, a court could find that a post-sale restraint conforms with the antitrust laws but is unenforceable as a matter of patent law because the restraint was not clearly communicated to the initial purchaser or inadequate notice was given to subsequent purchasers. This nuanced application of the exhaustion doctrine protects users against unfair surprise while avoiding arbitrary outcomes in which patent owners' ability to enforce use limitations would depend on formalistic distinctions between sale and non-sale transactions.

IV. Contract Remedies Cannot Adequately Protect the Post-Sale Interests of Patent Owners

It is sometimes argued that, even under a mandatory application of the exhaustion doctrine, patent owners could still enforce post-sale restraints through state contract law and would therefore be adequately protected. This argument is unpersuasive. While contract law does provide patent owners with monetary remedies to enforce post-sale restraints, those remedies are not reasonably comparable to the full menu of remedies available under patent law.

There are three fundamental differences.

First, a breach of contact cause of action can only be brought against parties with whom the patent owner stands in privity. As a result, contract law provides the patent holder with no avenue by which to directly enforce post-sale restraints against subsequent purchasers after the initial authorized sale, even if those purchasers were

given adequate notice of the use restrictions pertaining to the patented article. Although the patent holder can indirectly enforce post-sale restraints against subsequent purchasers through its contractual agreements with a licensee, that is a potentially cumbersome and unreliable mechanism insofar as it relies on the licensee to diligently pursue enforcement action on behalf of the patent owner.

Second, even setting aside these enforcement challenges, the patent owner's monetary award under contract law would typically be limited to expectation damages that replicate the hypothetical economic state of affairs that would have existed but for the alleged infringer's breach of the use limitations. While contract law allows parties to agree upon alternative damages measures, any such negotiating latitude is limited by the fact that contract law does not permit "penalty" damages. Moreover, absent agreement to the contrary, contract law imposes a duty on non-breaching parties (in this case, the patentee) to mitigate damages.

Expectation damages, or alternative damages measures specified by contractual agreement, could in some circumstances approximate the lost profits or reasonable royalty damages to which a patent owner is entitled under the patent statute (35 U.S.C. § 284). However, patent law provides two powerful additional remedies that do not exist in contract law. Most importantly, patent law provides a patentee with the opportunity to secure injunctive relief, subject to the four-factor test as set forth by this Court in *eBay Inc. v. MercExchange L.L.C.*, 547 U.S. 388 (2006). Additionally, in the case of willful infringement and other exceptional cases, a patentee has the opportunity to petition for treble damages and attorneys' fees (35 U.S.C. §§ 284, 285). Those additional remedies—in particular, the injunctive

remedy—are especially critical when the patent owner is an individual or smaller firm that has significantly fewer resources to fund litigation as compared to the alleged infringer.

Third, patent actions arise under federal law and in federal courts, which promote uniformity and certainty in technology transactions. Leaving what are inherently national and international transactions that revolve around patent licenses to the differing laws of the states risks undermining the stability of markets for technology transactions and the substantial investments in research and development, as well as commercialization, that stable markets promote.

V. The Federal Circuit Properly Concluded that International Exhaustion Should Not Apply to Foreign Sales of Patented Goods

The Federal Circuit's holding in *Lexmark* restricting exhaustion to sales that occur within the physical territory of the United States is consistent with this Court's precedents. While this Court in *Kirtsaeng* extended the first-sale doctrine in copyright law to sales in foreign markets, *Kirtsaeng*, 133 S. Ct. at 1363, it did not hold, or even suggest, that its holding extended to patent law. That contrasts with *eBay Inc.*, 547 U.S., at 388, in which this Court observed commonalities between copyright and patent law with respect to the use of equitable principles in awarding injunctive relief.

In the patent context, it would be inappropriate to adopt a comparable rule that the exhaustion doctrine applies to transactions taking place outside the United States. This Court has long emphasized that, at least absent specific statutory authority, patent law has no

extraterritorial scope. Specifically, the Court has stated that patent law "do[es] not, and w[as] not intended to, operate beyond the limits of the United States", *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) (*quoting Brown v. Duchesne*, 60 U.S. 183, 195 (1856)).

Although one could reasonably debate whether international exhaustion is "extraterritorial" in a purely doctrinal sense, adopting such an approach would certainly affect overseas sales activity, likely substantially. For instance, if patented pharmaceuticals sold in developing countries could be exported to the United States irrespective of any resale constraints agreed upon at the point of sale, pharmaceutical companies would have a strong incentive to raise prices in these countries in order to take into account the effect of applying the exhaustion doctrine to foreign sales. While it is possible that contractual obligations could mitigate this outcome against the immediate foreign licensee, breach of contract actions have no legal effect on subsequent buyers and, even against licensees, are far from a reliable enforcement tool if those parties have no U.S. presence or operate in jurisdictions in which contract enforcement is challenging. For developing countries in particular, this would almost certainly result in higher prices since pharmaceutical companies would anticipate that any products sold in those countries would be resold into the United States market by resellers seeking to capture the difference between lower foreign and higher U.S. prices for the same product.[9]

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[9] Although 21 U.S.C. § 381(d) nominally prevents the importation of patented pharmaceuticals, enforcement of this statute lies entirely with the federal government, which—as Lexmark noted below—has never brought an action against an

Additionally, this Court's decision in *Kirtsaeng* relied on a close reading of 17 U.S.C. § 109(a) (including its legislative history), which codifies copyright's first sale doctrine, which in turn expressly limits the copyright holder's exclusive distribution right. There is no such analogue in patent law. Congress has never elected to codify patent exhaustion doctrine and therefore there is no comparable statutory instruction, and accompanying legislative history, that would signal legislative intent to support any judicial extension of the doctrine to foreign sales.

If this Court were nonetheless to adopt the view that the exhaustion doctrine does extend to foreign sales, we would urge the Court to then apply a presumptive approach with respect to any such foreign sales, similar to the one we described above in the domestic context. Following this approach, a foreign sale of an article patented in the United States would be subject to the exhaustion doctrine, unless the patent holder expressly reserved its U.S. patent rights. As in the domestic context, a presumptive approach would best implement the complex rationale behind the exhaustion doctrine. To protect downstream users from unfair surprise, this presumptive approach would place the burden on the patent owner to reserve its U.S. patent rights at the point of first sale. To enable patent owners to enter into customized relationships with other firms in the process of commercializing a new technology, and thereby reduce the costs ultimately borne by consumers, this presumptive approach would enable innovators and users to waive exhaustion by contract.

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importer that has lawfully purchased a drug abroad to sell within the United States. In this sense, like contract law, it is not an adequate substitute for the rights afforded by patent law.

CONCLUSION

For the foregoing reasons, the decision of the Court of Appeals for the Federal Circuit should be affirmed.

Respectfully submitted,

JONATHAN M. BARNETT
699 Exposition Blvd.
Los Angeles, CA 90089
(213) 740-4792
jbarnett@law.usc.edu

TED M. SICHELMAN
Counsel of Record
5998 Alcala Park
Guadalupe Hall
San Diego, CA 92110
(619) 260-7512
tsichelman@sandiego.edu

February 23, 2017

APPENDIX

APPENDIX

Amici curiae law professors are listed below. Affiliation is provided for identification purposes only, and the brief does not reflect the views of the listed institutions.

Martin J. Adelman
Theodore and James Pedas Family Professor of Intellectual Property and Technology Law
Co-Director of the Intellectual Property Law Program
Co-Director of the Dean Dinwoodey Center for Intellectual Property Studies
George Washington University Law School

Jonathan M. Barnett
Professor of Law
Director, Media, Entertainment and Technology Law Program
University of Southern California,
Gould School of Law

Henry N. Butler
Dean and Professor
Antonin Scalia Law School
George Mason University

Daniel R. Cahoy
Professor of Business Law
Smeal College of Business
Pennsylvania State University

James Ming Chen
Professor of Law and Justin Smith
Morrill Chair in Law
Michigan State University

Vincent Chiappetta
Professor of Law
Director of the Law and Business Program
Willamette University College of Law

Thomas F. Cotter
Briggs and Morgan Professor of Law
University of Minnesota Law School

Gregory Dolin
Associate Professor of Law
Co-Director, Center for Medicine and Law
University of Baltimore School of Law

Richard A. Epstein
Laurence A. Tisch Professor of Law,
New York University School of Law
Kirstin Bedford Senior Fellow,
Hoover Institution
James Parker Hall Distinguished
Service Professor of Law Emeritus,
University of Chicago Law School

Christopher Frerking
Professor of Law
Director, Patent Practice and Procedure Program
University of New Hampshire School of Law

Robert W. Gomulkiewicz
UW Foundation Professor of Law
Director, Intellectual Property Law &
Policy Graduate Program
University of Washington School of Law

Hugh Hansen
Professor of Law
Director, Fordham Intellectual
Property Law Institute
Fordham University School of Law

Timothy R. Holbrook
Professor of Law
Emory University School of Law

Christopher Holman
Professor of Law
UMKC School of Law

Justin Hughes
Honorable William Matthew
Byrne Professor of Law
Loyola Law School
Loyola Marymount University

Keith N. Hylton
William Fairfield Warren Distinguished Professor
Professor of Law
Boston University School of Law

Olena Ivus
Associate Professor and Distinguished Faculty Fellow of Business Economics
Smith School of Business, Queen's University

Jay P. Kesan
Professor of Law
H. Ross & Helen Workman Research Scholar
Director, Program in Intellectual Property and Technology Law
University of Illinois College of Law

Edwin L.-C. Lai
Professor of Economics
Hong Kong University of Science and Technology

Anne Layne-Farrar
Vice President, CRA
Adjunct Professor
Northwestern University School of Law

Irina D. Manta
Professor of Law
Director of the Center for Intellectual Property Law
Maurice A. Deane School of
Law at Hofstra University

Walter F. Matystik
Associate Provost and Professor of Law
Manhattan College

Shawn P. Miller
Teaching Fellow in Law, Science & Technology
Stanford Law School

Adam Mossoff
Professor of Law
Antonin Scalia Law School
George Mason University

Craig Allen Nard
Galen J. Roush Professor
of Business Law & Regulation
Director, Spangenberg Center for Law,
Technology & the Arts
Case Western Reserve University
School of Law

Christopher M. Newman
Associate Professor of Law
Antonin Scalia Law School
George Mason University

Xuan-Thao Nguyen
Professor of Law
Gerald L. Bepko Chair
Director, Center for Intellectual
Property Law and Innovation
Indiana University McKinney School of Law

Sean O'Connor
Boeing International Professor of Law
Director, Center for Advanced
Studies and Research
on Innovation Policy
University of Washington School of Law

David S. Olson
Associate Professor
Boston College Law School

Seth C. Oranburg
Assistant Professor
Duquesne University School of Law

David Orozco
Associate Professor of Legal Studies
Dean's Emerging Scholar
College of Business
Florida State University

Kristen Osenga
Professor of Law
University of Richmond School of Law

Jillian Popadak
Assistant Professor
Duke University, Fuqua School of Business

Michael Risch
Professor of Law
Villanova University Charles Widger School of Law

Guy A. Rub
Associate Professor of Law
Michael E. Moritz College of Law
The Ohio State University

Karen E. Sandrik
Assistant Professor of Law
Willamette University College of Law

Mark F. Schultz
Associate Professor of Law
Southern Illinois University School of Law

Ted M. Sichelman
Professor of Law
Co-Director, Center for Intellectual
Property Law & Markets
Director, Center for Computation,
Mathematics, and the Law
University of San Diego, School of Law

Toshiko Takenaka
WRF/W. Hunter Simpson
Professor of Technology Law
University of Washington School of Law

David O. Taylor
Associate Professor of Law
Co-Director, Tsai Center for Law,
Science and Innovation
SMU Dedman School of Law

Liza S. Vertinsky
Associate Professor of Law
Emory University School of Law

Saurabh Vishnubhakat
Associate Professor
Texas A & M University School of Law
Texas A & M College of Engineering

R. Polk Wagner
Professor of Law
University of Pennsylvania Law School

Elizabeth Winston
Associate Professor of Law
Co-Director of the Law and Technology Institute
The Catholic University of America
Columbus School of Law

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IMPRESSION PRODUCTS, INC., PETITIONER

v.

LEXMARK INTERNATIONAL, INC., RESPONDENT

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR HTC CORPORATION AND HTC AMERICA, INC., AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

OWAIS SIDDIQUI
HTC AMERICA, INC.
13920 SE Eastgate Way
#200
BELLEVUE, WA 98005
(425) 679-5318

GINO CHENG
Winston & Strawn LLP
355 South Grand Avenue
Los Angeles, CA 90071
(213) 615-1700

STEVEN M. ANZALONE
Counsel of Record
JOHN ALISON
Winston & Strawn LLP
1700 K Street, N.W.
Washington, DC 20006
(202) 282-5000
sanzalone@winston.com

Counsel for Amici Curiae

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

Library of Congress

QUESTION PRESENTED

The "patent exhaustion doctrine"—also known as the "first sale doctrine"—holds that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). This case presents two questions of great practical significance regarding the scope of this doctrine on which the *en banc* Federal Circuit divided below:

1. Whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of the exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

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INTRODUCTION AND INTEREST OF *AMICI CURIAE*[*]

For centuries, the common law has protected the ability of consumers to legally resell their legally purchased patented products free from the onerous burden of license or royalty fees to the patent owner. Despite this Court's guidance in *Quanta Computer Inc.* v. *LG Electronics Inc.*, 553 U.S. 617, 625 (2008), recognizing an authorization-based patent framework, and *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), reaffirming the global role of common law doctrines, the Federal Circuit[1] has created a territorial exception to the patent exhaustion and "first sale" doctrines. This unjustified exception threatens the practical realities of the global, interdependent marketplace and should be overruled.

A. HTC Corporation and HTC America, Inc. (collectively "HTC") Create Innovative Smartphones Used by Consumers Worldwide

In 1997, a few determined individuals— including current CEO Cher Wang—founded today's HTC Corporation. Although they had initially targeted OEM sales of conventional notebook computers, HTC's founders recognized the near-limitless market poten-

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[*] The parties consented to the filing of this brief. The letters of consent are on file with the Clerk. In accordance with Rule 37.6, *amici* state that no counsel for any party authored this brief in whole or in part, and that no person or entity, other than the *amici*, has contributed monetarily to the preparation or submission of this brief.

[1] This amicus brief addresses only the second question presented here.

tial for hand-held mobile devices and fearlessly committed their resources to creating the world's first touch and wireless handheld devices.

Over the intervening 20 years, HTC has supplied a "parade of firsts" to the worldwide market for smartphone devices, including the world's first smartphone with keyboard (2004); the world's first 3G smartphone (2005); the world's first "touch screen" smartphone (2007); the world's first Google Android smartphone (2008); and the world's first 4G Android smartphone (2010). By 2011, Interbrand recognized HTC smartphones in its list of "Global Best 100 Brands." HTC currently sells worldwide its flagship HTC 10 line of smartphone products and other consumer electronic products.

B. HTC Smartphones Contain Integrated Circuits and Components Made Worldwide, Sold to HTC by Vendors Worldwide, and for Use in Smartphones Purchased by Consumers Worldwide

The logistics behind the manufacture and assembly of a smartphone have grown increasingly intricate and international in nature. HTC builds innovative smartphones using integrated circuits ("ICs") made abroad by (or for) U.S. manufacturers. Such ICs are commonly protected by both U.S. and international patents and are sold, through networks of authorized vendors, for consumer use both in the U.S. and worldwide. For example, over at least the past twelve years, HTC has built most of its smartphones using Qualcomm's telecommunications chipsets. The Qualcomm

model,[2] discussed below, provides a useful paradigm illuminating how certain U.S. companies make and sell, in Asia, hardware and software technologies that have been invented and patented in the U.S., for use by consumers in the U.S. and in countries worldwide.

Qualcomm relies on independent third-party suppliers to perform the manufacturing and assembly, and most of the testing, of its ICs, based primarily on Qualcomm designs and test programs. See Qualcomm's 10-K at 6. For instance, Qualcomm's primary foundry manufacturers include international companies such as Global Foundries Inc. (Germany, Singapore, and New York); Samsung Electronics Co., Ltd. (South Korea, Texas); SMIC (Shanghai, Beijing, Tianjin); TSMC (Taiwan, China, Washington State); and UMC (Taiwan and Singapore). *Ibid.*

Qualcomm also contracts "assembly" and "test" services from a worldwide network of partners who transform Qualcomm's manufactured silicon wafers into functioning IC processors, including ASE (Japan, South Korea, China, Taiwan, and the U.S.) and Amkor Technology (Japan, South Korea, China, Taiwan, Philippines, Malaysia, Singapore, France, and the U.S.). *Ibid.*

Qualcomm's CDMA Technologies ("QCT") Business Segment develops and supplies ICs and system software, which Qualcomm sells and licenses to product manufacturers, such as HTC, who use Qualcomm's ICs

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[2] The following discussion is drawn from Qualcomm's Form 10-K for the Fiscal Year Ended Sept. 28, 2014 ("Qualcomm's 10-K") at 6 (*available at* https://www.sec.gov/Archives/edgar/data/804328/000123445214000320/qcom10-k2014.htm) (last visited January 19, 2017).

in wireless devices sold to consumers.[3] Qualcomm's Technology Licensing ("QTL") Business Segment grants licenses or otherwise provides rights to product manufacturers, such as HTC, who use portions of Qualcomm's intellectual property portfolio, including patent rights essential to or useful in the manufacture of wireless handset devices that implement multiple wireless standards and their derivatives.[4]

C. HTC Relies on Fully Authorized Sales from Licensed Component Suppliers Worldwide

In 2016, HTC sold several million smartphones worldwide. As a manufacturing entity, the company remains a significant purchaser of semiconductor products—*e.g.*, baseband and application processors and associated hardware and software—that are manufactured in Asia and sold globally, including in the United States. Most semiconductor product manufacturers observe exhaustion principles upon a sale. Certain semiconductor product manufacturers, however, refuse to "sell" semiconductor products to smartphone manufacturers except upon supplemental licensing terms that eviscerate the exhaustion doctrine.

For example, consumer electronics companies have been required to agree, upon a bona fide sale of semiconductor products, to conditions precluding them from "any combination of the Product or software with any other product" [5] except upon a separate license to

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[3] See *id.* at 6.

[4] See *id.* at 7.

[5] The term "Product," as used here, may generally be understood to mean "the combination of Components and Development Tools." "Components" may include both hardware and firmware. "Development Tools" may include

use such "Products or services." Similarly, manufacturers have been required, upon a bona fide sale of "Products accompanied by Software," to agree that "nothing" in such sale "shall be construed as the sale of * * * any Software * * * embedded in the Products" except upon a non-exclusive license "to use the Software * * * only in the manner which [Vendor] intends the software to be used."[6]

The use of "separate license" clauses in "pre-sale" semiconductor manufacturing agreements implicitly undercuts the "first sale" doctrine by permitting a semiconductor manufacturer to collect royalty payments at multiple instances during a sale of a patented device. Such pre-sale practices erode a key public policy goal of the exhaustion doctrine, *i.e.*, to prevent patent owners from obtaining excess overcompensation by repeatedly aggregating streams of patent royalties along multiple points in a production or distribution chain.

Ideally, the "first sale" doctrine in patent exhaustion law should protect against excess overcompensation to patentees up to the point where a semiconductor manufacturer has received full compensation upon the sale and/or use of its patented invention. Nonetheless, a risk of "double dipping" inherently exists where semiconductor manufacturers with excessive pre-sale bargaining power can extract unwarranted compensation from manufacturing licensees.

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hardware and software products used to test and evaluate products.

[6] *Ibid.*

D. Patent Exhaustion Principles Protect Smartphone Manufacturers Like HTC and Consumers Worldwide

Pursuant to licenses and other rights provided by its component manufacturers, HTC issues purchase orders for finished component chipsets, which are drop-shipped to HTC in Taiwan. HTC then incorporates these chipsets and software code updates into an ever-evolving portfolio of HTC smartphones assembled in Taiwan or China. Finally, HTC ships and delivers finished HTC smartphones from Asia to commercial customers worldwide, including the United States. The benefits of such international commerce to domestic semiconductor consumers would not be sustainable except for the implementation of rules that exhaust patent rights and authorize semiconductor consumers to make, use, sell, offer for sale, and import finished semiconductor products into the U.S.

As the number of components incorporated into the finished product increases, so too does the difficulty of tracking down and verifying their individual origins and points-of-sale. On par with the tally of hardware parts, a host of software components increases the logistical count and introduces an additional risk of patent holdup. Smartphone software takes all forms and exists at various layers: hardware drivers, middleware, interfaces, applications, the operating system, etc. Further, through their provision of periodic firmware or software updates for those components in the finished product, the chipset manufacturers' roles may pervade long after the initial sale of their chips. Ultimately, it becomes prohibitively onerous for the downstream assembler to identify each patent holder whose intellectual property may be on board and confirm the authorization of its use in each jurisdiction of potential use.

As semiconductor technology has advanced, chipset manufacturers have increasingly migrated from supplying multiple chipsets to providing a single, denser chipset—such as the ICs now implemented in the HTC's flagship "One (M9)" and "Ten" wireless handsets—that embody an "all-in-one" processor design that places multiple elements on a single tiny chip, regardless of the countries into which they eventually are sold and used.

While these denser, multi-purpose chipsets consolidate and replace functionalities that would have been implemented by a variety of different components, they conversely introduce an increased risk of being held hostage to a patent without a viable technological alternative. Having adopted a specific system-on-a-chip, system-in-package, and package-in-package solution—in HTC's case, the Qualcomm Snapdragon 810 and 820 for its "One (M9)" and "Ten" smartphones—manufacturers can be hard-pressed to find a competing component on the market that could rival their compact size, processing power, energy efficiency, support for higher wireless speeds, and overheating safeguards. In essence, Qualcomm's(or other manufacturers) ability to lock semiconductor users into their smaller, faster, cooler, and less power-hungry solution has made such users disproportionately vulnerable to a patentee's overreaching by those enabling technologies.

HTC's freedom to purchase smartphone ICs subject to broad *international* patent exhaustion principles remains critical to HTC's ability to satisfy the global market's ever-increasing demand for smartphone products. The chipsets sold to HTC and used to build modern smartphones are not domestic in character. To the contrary, they remain inherently *international* in their origins, *international* in their intended modes

of operation, and *international* in how they are used by consumers.

In the absence of a robust international patent exhaustion doctrine, each time HTC purchases ICs or other components from a licensor/rights-owner located outside of the United States, it risks a potential demand from that licensor/rights-owner seeking additional fees if the same part is sold/used in, or imported into, the United States. Moreover, in the case of third-party patents covering IC components, an IC manufacturer may obtain a worldwide license to the patents from a third party; but without an international patent exhaustion doctrine, the third-party patent holder could "double-dip" and collect royalties from the IC manufacturer's downstream customers, such as HTC. The survival of a patent holder's rights and persistence of injunctive threat is anathema to the fast-moving consumer electronics industry and more acutely felt in the smartphone market, where new models are released every year. Such threats deprive manufacturers and consumers of the intended benefits of patent exhaustion under the common law, thereby unfairly restraining trade; introducing uncertainty into completed actions; obstructing the public's enjoyment of technology they have purchased; inflating information and transaction costs; and seeking enhanced profits from evading well-settled exhaustion principles.

E. The Lower Court Jurisprudence Rescuing Patent Rights from International Exhaustion Leads to Mischief and Real-World Harms to Downstream Customers

The holding below and its underpinnings from *Jazz Photo Corp.* v. *International Trade Comm'n*, 264 F.3d

1094 (Fed. Cir. 2001), have noxious downstream effects that not only cast a cloud over finished products but ultimately reduce consumer choice. These legitimate concerns are not speculative and have sweeping consequences that stretch far beyond printer cartridges. Indeed, the smartphone industry has confronted this very issue before.

Amici refer to a prior UK patent dispute, *HTC Corp.* v. *Nokia Corp.*, High Court of Justice, Chancery Division, Patents Court, Case Nos. HC12A02048 and HC12C02909 (2013) (Arnold, J.),[7] as a concrete parallel with significant real-world impact that stemmed from a patent regime that imposed a territorial restriction on patent exhaustion in spite of an authorized first sale.

In the UK action, HTC's "One (M7)"—a predecessor of the "One (M9)"—and its "One Mini" variant incorporated Qualcomm's WTR1605 and WTR1605L chips. These chips were ruled to have used one of Nokia's European patents covering a transceiver component. Significantly, the patent was subject to a cross-license between Qualcomm and Nokia, under which Nokia covenanted not to sue Qualcomm. Qualcomm was licensed, and therefore "authorized," to sell these chips, and it sold them to HTC in Taiwan. But when HTC subsequently used these chips and sold the finished products in the UK, Nokia sued HTC on the European patent based on HTC's use of the Qualcomm chip and for which Qualcomm itself had already obtained a license/covenant not to sue.

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[7] The public version of the opinion is available at www.scribd.com/document/180191060/13-10-30-HTC-v-Nokia-Public-UK-Judgment-EP0998024 (last visited January 19, 2017) ("Arnold, J. Op.").

Finding neither an implied license under English law to resell or import the covered product in the UK, nor an international exhaustion doctrine under U.S. law,[8] the UK court issued an injunction against sales of the HTC "One (M7)" and "One Mini." Although the ban against the former was stayed pending HTC's appeal, and despite the parties reaching a global settlement in the following year, the critical sales window during the holiday season had lapsed. These obstacles effectively gutted HTC's retail numbers in its largest market in Europe and irreparably dented sales during the short-lived product cycle up to the subsequent release of their successors, the "One (M8)" and "One Mini 2."

The decision below must be reversed.

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[8] Because the Nokia-Qualcomm agreement was governed by Delaware law, Justice Arnold turned to U.S. federal patent law on the issue of patent exhaustion, raised by HTC. After hearing experts on U.S. law, Justice Arnold agreed with Nokia's expert that the authorized first sale had to occur inside the U.S. to exhaust a U.S. patent. HTC's exhaustion defense rose and fell with Justice Arnold's interpretation of U.S. common law and erroneous conclusion that the Federal Circuit decisions in *Fuji Photo Film Co. Ltd* v. *Jazz Photo Corp.*, 394 F.3d 1368 (Fed. Cir. 2005), and *Fujifilm Corp* v. *Benun*, 605 F.3d 1366 (Fed. Cir. 2010), were determinative. See Arnold, J. Op. ¶¶ 187-188. This historical High Court of Justice case emphasizes the importance and international dimension of the U.S. patent exhaustion doctrine, which may have far-reaching and dire influence not only on intellectual property rights derived from the U.S. Constitution, but on foreign patents whose licenses are governed by U.S. law as well.

STATEMENT

This case arises from an attempt by a patent holder to prohibit competition in the sale of Lexmark printer cartridges. Petitioner was one of several companies that purchased used printer cartridges from within and without the United States to refurbish with toner and sell to consumers who have compatible printers. Lexmark sued those competitors in 2010—and now only petitioner remains.

As a result of narrowing the claims, only the two issues presented here remain. On a motion to dismiss, the district court held that this Court's decision in *Quanta* controlled. *Lexmark Int'l, Inc.* v. *Impression Prod., Inc.*, 816 F.3d 721, 729 (Fed. Cir. 2016). It reasoned that for cartridges purchased in the United States, following *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), infringement liability would create too much uncertainty for purchasers and end users. *Ibid.* For cartridges sold overseas, the district court held that the Federal Circuit's decision in *Jazz Photo* had not been overruled by this Court's decision in *Kirtsaeng*. *Id.* at 730.

On appeal, the Federal Circuit *en banc* held that a restriction in place at the time of sale was enforceable. *Id.* at 726. Thus, the appeals court held that *Mallinckrodt* remained good law under *Quanta*. *Ibid.* It also reaffirmed its holding in *Jazz Photo* distinguishing *Kirtsaeng* as applying only to copyright cases. *Id.* at 727.

This Court granted certiorari.

SUMMARY OF ARGUMENT

This case involves foreign sales authorized by a U.S. patent holder that seeks a second bite at the apple as to the legally purchased, repatriated products. The question is whether this Court has ever endorsed the circumvention of the "first sale" doctrine by injecting a domestic sale requirement. The answer is no.

Instead, this Court unequivocally reaffirmed the authorization-based framework in *Quanta Computer Inc.* v. *LG Electronics Inc.*, 553 U.S. 617, 625 (2008). But under the decision of the court below in *Impression Products*, U.S. patent holders may now sidestep the traditional exhaustion defense where the first authorized sale occurred abroad. The Federal Circuit's new pronouncement is not rooted in any precedent set by this Court, conflicts with this Court's recapitulation of the common law in *Kirtsaeng*, and undermines longstanding tenets that discourage the restraint of trade, and should be overturned.

For at least four centuries, the common law has protected the right of consumers to resell legally purchased products.[9] The twin doctrines of patent exhaustion and "first sale" in copyright arise from a common spring, drive the same common law goal—to prohibit "the alienation of chattels against Trade and Traffi[c], and bargaining and contracting," *Kirtsaeng*, 133 S. Ct. at 1363—and continue to apply to articles that embody intellectual property.

Despite this centuries-old, bedrock principle, Lexmark and the United States Amicus now urge this Court to endorse a relatively new territorial restriction

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[9] 1 E. Coke, *Institutes of the Laws of England* § 360, at 223 (1628).

on patent exhaustion that ignores the realities of the worldwide marketplace and undermines predictability in commercial transactions. In particular, the United States Amicus brief in *Impression Products* urges this Court to separate patent-type "common law" exhaustion from copyright-type "statutory" exhaustion. See 15-1189, *Impression Prods., Inc.* v. *Lexmark Int'l, Inc.*, at 21-22 ("the Patent Act contains no analog to 17 U.S.C. 109(a)").

While differences between statutory law and common law concepts may advise "caution * * * in applying doctrine formulated in one area to the other," *id.* at 21, quoting *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984), this Court has robustly defined an authorization-based analysis of both the "common law exhaustion" principles announced in *Quanta*, 553 U.S. at 625-628, and the statutory analysis of *Kirtsaeng*, 133 S. Ct. at 1357-1364.

From the manufacturer's standpoint, both the *Quanta* and *Kirtsaeng* approaches should necessarily reach a common "authorization" analysis that is blind to geographic boundaries. The wisdom of common-law exhaustion and its bright-line application ensure clarity in negotiating licenses and managing supply and distribution chains, particularly in an increasingly borderless world.

For all these reasons, this Court should reject inserting the territorial limit to the patent exhaustion doctrine adopted by the court below.

ARGUMENT

I. Authorized Foreign "First Sales" Terminate Patent Rights in Sales to Subsequent Purchasers.

In the absence of statutory direction, the rule in common law is undisputed: "[T]he initial authorized sale of a patented item terminates all patent rights to that item." *Quanta*, 553 U.S. at 625. This Court placed no territorial limits on this bright-line rule when articulating it.

Indeed, this Court has repeatedly confirmed that the first sale doctrine is not bounded by geography. Commensurate with the common law's rejection of territorial restrictions, the Court has held that "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, *unrestricted in time or place.*" *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (emphasis added). Nor did this Court find any geographical distinction in *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908), where it first applied the "first sale" doctrine.

Conversely, this Court has never endorsed a geographical prerequisite for an authorized sale to exhaust one's patent rights. *Boesch* v. *Graff* does not counsel otherwise, as the German sale in that case was not authorized by the U.S. patent holder. 133 U.S. 697, 702 (1890). This Court's decision in *Boesch* instead hinged on the lack of authorization, rather than the location of the sale.

This Court has concluded in analogous cases that acts abroad would trigger the first sale doctrine. With respect to copyright, this Court was emphatic that "[t]he common-law doctrine makes no geographical

distinctions." *Kirtsaeng*, 133 S. Ct. at 1363. There, this Court ultimately agreed that the statutory language or Title 17 did not rewrite or otherwise alter the common-law tradition that rejects territorial restraints on authorized sales. *Kirtsaeng*, 133 S. Ct. at 1358. Without a comparable federal statute to circumscribe exhaustion in the patent context, the "common-law doctrine with an impeccable historic pedigree" applies with equal if not greater force here. *Id.* at 1363.

Having authorized foreign sales exhaust U.S. patents is hardly a revision of longstanding patent law. This formulation is backed by this Court's prior holding with respect to LGE's patents. In *Quanta*, this Court declined to limit its holding of exhaustion to sales that occurred within the U.S., notwithstanding the Court's knowledge of foreign sales of Intel's chips. Instead, the Court recognized and embraced the aspect of overseas sales, going out of its way to distinguish the territorial requirements of patent infringement from the international breadth of the exhaustion doctrine, *i.e.*, inquiring "whether the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing." *Quanta*, 553 U.S. at 632 n.6 (emphasis original). Yet despite these clear warnings, the Federal Circuit's *en banc* opinion imports a domestic limitation that baselessly departs from the bedrock principles of the "first sale" doctrine, which abhors "restraints on the alienation of chattel." *Kirtsaeng*, 133 S. Ct. at 1363.

The rationales invoked by this Court in *Kirtsaeng* are readily translatable to the patent context, particularly when the same piece of source code may be covered by both copyright and software patents. Imposing a territorial restriction on the doctrine of patent exhaustion creates the same "administrative burden"

and "disruptive impact" on the free flow of difficult-to-trace, readily moveable components rejected in *Kirtsaeng*. 133 S. Ct. at 1363. In *Kirtsaeng*, this Court specifically observed that "automobiles, microwaves, calculators, *mobile phones, tablets, and personal computers* contain copyrightable software programs or packaging," and that "[m]any of these items are made abroad with the American copyright holder's *permission* and then sold and imported (with that permission) to the United States." *Id.* at 1365 (emphases added) (internal quotation omitted). The Court further held that "[a] geographical interpretation would subject many, if not all, of them to the disruptive impact of the threat of infringement suits." *Ibid.*

Other good reasons for symmetry arise beyond a mere preference for methodological consistency. First, prohibiting the same patentee from extracting an additional payment upon import of a foreign purchase whose initial sale that it had authorized would prevent the type of windfall "double recovery" previously rejected by this Court in *Quanta*. See 553 U.S. at 630.

Second, an exhaustion rule that discriminates against personalty interests based on the location of an authorized sale would contradict the long arc of precedent and the principles that undergird the freedom to use and re-sell both types of legally purchased intellectual property.[10] See, *e.g.*, *Adams* v. *Burke*, 84

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[10] This Court has recognized "the historic kinship between patent law and copyright law," and has acknowledged that, in appropriate cases, it is "appropriate to refer" to a concept in one to inform an analogous concept in the other. *Sony Corp.*, 464 U.S. at 439 (looking to vicarious liability in patent law to inform vicarious liability in copyright law).

U.S. 453, 456 (1873) (striking down a geographical restriction on the use of a sold article because, "in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use."). Courts for centuries have resisted limitations on downstream use and resale of personal property because "they offend against the ordinary and usual freedom of traffic in chattels." *John D. Park & Sons Co.* v. *Hartman*, 153 F. 24, 39 (6th Cir. 1907); *cf.* 2 William Blackstone, *Commentaries* *288 ("[E]xperience has shown, that property best answers the purposes of civil life, especially in commercial countries, when its transfer and circulation are totally free and unrestrained.") (spelling modernized). *Kirtsaeng* merely reinforces this Court's time-tested notions of that "impeccable historic pedigree." 133 S. Ct. at 1363 (citing Lord Coke).

The rule here is clear: "[T]he initial authorized sale of a patented item terminates all patent rights to that item." *Quanta*, 553 U.S.at 625. Where sales to downstream customers are fully authorized, based on *Quanta*, the patent-exhaustion analysis ends without further embellishments.

The contrary rules advocated by Lexmark and the Solicitor General—that a foreign sale authorized by a U.S. patent holder need not exhaust its patent rights—cannot be reconciled with reasoning set forth in the Supreme Court's *Kirtsaeng* decision or with the common-law doctrine that "makes no geographical distinctions." 133 S. Ct. at 1363. The decision by the court below authorizes the unilateral imposition of geo-

graphical distinctions unhinged from this Court's authorization-based analysis of patent exhaustion and should be overturned.

CONCLUSION

Amici respectfully request that this Court, in view of its holding in *Kirtsaeng*, overrule the holding below in *Impression Products* that imposed a territorial requirement for authorized sales to exhaust U.S. patent rights.

For the foregoing reasons, the decision below should be reversed.

Respectfully submitted.

OWAIS SIDDIQUI
HTC AMERICA, INC.
13920 SE Eastgate Way
#200
BELLEVUE, WA 98005
(425) 679-5318

STEVEN M. ANZALONE
Counsel of Record
JOHN ALISON
Winston & Strawn LLP
1700 K Street, N.W.
Washington, DC 20006
(202) 282-5000
sanzalone@winston.com

GINO CHENG
Winston & Strawn LLP
355 South Grand Avenue
Los Angeles, CA 90071
(213) 615-1700

Counsel for Amici Curiae

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IN THE

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IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* HUAWEI TECHNOLOGIES CO., LTD. SUPPORTING PETITIONER IN PART

SCOTT F. PARTRIDGE
AARON M. STREETT
Counsel of Record
J. MARK LITTLE
BAKER BOTTS L.L.P.
910 Louisiana St.
Houston, TX 77002
(713) 229-1855
aaron.streett@bakerbotts.com

Counsel for Amicus Curiae Huawei Technologies Co., Ltd.

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D.C. 20002

QUESTIONS PRESENTED

1. Whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

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BRIEF OF *AMICUS CURIAE* HUAWEI TECHNOLOGIES CO., LTD. SUPPORTING PETITIONER IN PART

INTEREST OF *AMICUS CURIAE*[1]

Huawei Technologies Co., Ltd. is the world's second largest manufacturer of cellular network infrastructure equipment. Headquartered in Shenzhen, China, with principal U.S. offices in Texas and California, its products serve over one-third of the world's population. Huawei ranks among the top five mobile handset vendors worldwide. Huawei's telecom network equipment, IT products

[1] Petitioner's counsel of record consented to the filing of this brief. Respondent's counsel of record consented to the filing of this brief by filing a blanket consent with the Clerk. No counsel for any party has authored this brief in whole or in part, and no person or entity, other than the *amicus* or its counsel, has made a monetary contribution to the preparation or submission of this brief.

and solutions, and smart devices can be found in 170 countries and regions. In 2015, Huawei achieved $60.8 billion in annual sales revenue, ranking it 129th in the Fortune 2016 Global 500.

Innovation is at the core of Huawei's business. Huawei consistently invests over 10% of its annual revenue in research and development. In 2015, for example, Huawei invested $8.6 billion (15.1% of its total 2015 revenue) in developing new products for the marketplace. This research and development spans the globe, with significant research activities occurring in many countries, including a substantial presence in the United States.

Huawei believes that the first-authorized-sale exhaustion rule is of utmost importance both to its business and to the telecommunications industry as a whole. Huawei has a strong interest in this case because it implicates the careful balance between a patentee's right to be compensated for its invention and the negative economic effects of restraints on trade.

SUMMARY OF ARGUMENT

This Court's precedents and other U.S. law provide the answers to the two questions presented there. First, this Court has affirmed the first-authorized-sale exhaustion doctrine many times over nearly two centuries. The Federal Circuit's inexplicable rejection of that crucial doctrine defies this Court's precedents and threatens deleterious economic effects. Second, the lower courts and U.S. trade agreements have recognized the necessity for U.S. patentees to be able to preserve their U.S. patent rights when making foreign sales, provided they do so explicitly. That presumptive-exhaustion rule respects the territorial nature of patent rights and honors the first-authorized-sale rule. The Court should confirm both of these established approaches here.

ARGUMENT

I. THE COURT SHOULD CONFIRM THE LONGSTANDING RULE EXTINGUISHING PATENT RIGHTS AND REMEDIES AT THE FIRST AUTHORIZED SALE

A. This Court has repeatedly endorsed the first-authorized-sale rule

1. This Court resolved the first question presented before the Civil War in *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539 (1852): "[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the [patent] monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. The Court reaffirmed that bedrock principle ninety years later: "[S]ale of [a patented article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942); see also *id.* at 252 ("The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."). This Court has endorsed the first-authorized-sale rule numerous other times, both before and since *Univis Lens*. See *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013); *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 625 (2008); *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964) (plurality opinion); *Boston Store* v. *Am. Graphophone Co.*, 246 U.S. 8, 25 (1918); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 508-518 (1917); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895); *Hobbie* v. *Jennison*, 149 U.S. 355, 361-363 (1893); *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873).

During this 160-year period of time, there was only one instance in which the Court retreated from this rule, and that was quickly corrected five years later. The

anomalous case was *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912), in which the Court held that "[t]he property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose," such that "[i]f that reserved control of use of the machine be violated, the patent is thereby invaded." *Id.* at 24-25.

The Court soon recognized its error and overruled *Henry* in *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917). The Court diagnosed the "defect" in *Henry* as the "failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding, and rights which he may create for himself by private contract." *Id.* at 514. As far as patent rights are concerned, "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every [patent-related] restriction which the vendor may attempt to put upon it." *Id.* at 516.

This Court's most recent pronouncements have been just as forceful in embracing the first-authorized-sale rule. In *Quanta Computer*, the Court recognized that "[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." 553 U.S. at 625-628. Similarly, the very first sentence of *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761 (2013), presented that rule as black-letter law: "Under the doctrine of patent exhaustion, the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article." *Id.* at 1764. In short, the first-authorized-sale rule is among the most deeply rooted doctrines in all of patent law.

2. To be sure, the sale must be "authorized" for the first-authorized-sale rule to apply. The Patent Act provides that "whoever *without authority* makes, uses, offers to sell, or sells any patented invention * * * infringes the patent." 35 U.S.C. § 271 (emphasis added). As discussed above, this Court has interpreted the "without authority" proviso to apply only to the first sale of a patented article and not to any further downstream sales.

Nevertheless, the requirement that the first sale be "authorized" remains a robust one. In addition to obvious non-authorized sales involving stolen goods and the like, this rule also comes into play when a patentee licenses others to manufacture and sell patented articles. An example is *General Talking Pictures Corp.* v. *Western Electric Co.*, 305 U.S. 124 (1938). The patentee in that case authorized a licensee to sell amplifiers for private and home use, but the licensee instead sold them to theaters for commercial use. *Id.* at 126. The Court held that "[a]s the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted to [the licensee]." *Id.* at 127. In other words, because the licensee exceeded the scope of the license there was never a first authorized sale, meaning that the first-authorized-sale rule did not apply to extinguish patent protections. Accordingly, because the theater "purchased and leased [the amplifiers] knowing the facts, it also was an infringer." *Id.* at 126.

When, however, the licensee complies with the license's restrictions, patent rights are extinguished with the first sale, and the patentee may not extend its patent rights to downstream purchasers through the license's restrictions. In *Quanta Computer*, for example, the patentee required the licensee "to give notice to its customers * * * that [the patentee] had not licensed those customers to practice its patents." 553 U.S. at 636. Because

the licensee complied with that notice requirement, its sale of the patented article was an authorized one. *Ibid.* For that reason, "the doctrine of patent exhaustion prevents [the patentee] from further asserting its patent rights with respect to the patents substantially embodied by those products." *Id.* at 637. Thus, the patentee could not sue downstream purchasers for patent infringement. *Ibid.*; see also *Motion Picture Patents*, 243 U.S. at 506-507, 515-518 (no patent-infringement claim against downstream purchaser when licensee communicated restrictions on the patented article's use to the purchaser in compliance with the terms of the license).

The key, therefore, is whether a first authorized sale occurred. If so, then a patentee's patent rights end there. If not, then the patentee retains its patent rights and remedies.

B. The first-authorized-sale rule fosters innovation without imposing onerous restraints on trade

1. "[T]his court has consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents, but is 'to promote the progress of science and the useful arts.'" *Motion Picture Patents*, 243 U.S. at 511 (quoting U.S. Const. art. I, § 8, cl. 8.); see also *Univis Lens*, 316 U.S. at 250 ("The declared purpose of the patent law is to promote the progress of science and the useful arts by granting to the inventor a limited monopoly, the exercise of which will enable him to secure the financial rewards for his invention.").

The first-authorized-sale rule furthers that foundational purpose of patent law. It strikes the appropriate balance between a patentee's right to be compensated for its invention and the negative economic effects of restraints on trade. Under the first-authorized-sale rule, a patentee is "entitled to but one royalty for a patented

machine." *Bloomer*, 68 U.S. at 350. That allows the patentee to reap a significant reward for its invention without strangling the market with onerous downstream restrictions.

The Federal Circuit's approach upsets the balance struck by this Court's opinions by overcompensating the patentee and introducing serious inefficiencies into the economy. "[T]he cost, inconvenience, and annoyance to the public * * * forbid[s]" that overly aggressive patent-law regime. *Motion Picture Patents*, 243 U.S. at 516. This "cost, inconvenience, and annoyance" stems from the patentee's near-total control over the use of its patented articles after the first authorized sale. Under the Federal Circuit's rule, the patentee would be able to extract an initial royalty from the first purchaser and then multiply its royalty with each subsequent purchaser. Alternatively, the patentee could act as Lexmark did here and simply impose a single-use restriction. Either way, the result would be the same—the crippling of the secondary market for patented goods.

These devastating effects would also be felt in markets for manufactured goods that use multiple patented components. The problem is particularly acute in the technology sector. There are over 250,000 patents relevant to smartphones. RPX Corp., Registration Statement (Form S-1), 59 (Sept. 2, 2011), http://www.sec.gov/Archives/edgar/data/1509432/000119312511240287/0001193125-11-240287-index.htm. Similarly, "a given semiconductor product * * * will often embody hundreds if not thousands of 'potentially patentable' technologies." Hall & Ziedonis, *The patent paradox revisited: an empirical study of patenting in the U.S. semiconductor industry, 1979-1995*, 32 RAND J. of Econ., No. 1, 101, 110 (2001). Under the Federal Circuit's rule, the patentees for each of those patented components would be able to restrain the primary and resale markets for both the underlying

components and the finished products using the full force of patent law. The result would be a stultified downstream market and higher prices for consumers, all so that the patentee can enjoy exponentially higher royalties than are necessary to reward it for the invention.

In short, the Federal Circuit's holding opens the door for all manner of mischief that would vitiate the first-authorized-sale exhaustion rule. If this Court validates Lexmark's efforts at circumventing patent exhaustion, it will create a blueprint for avoiding patent exhaustion altogether. There will be no shortage of companies following Lexmark's lead and adopting complex commercial structures to defeat the first-authorized-sale rule. All of this will hinder the free flow of goods, raise prices for consumers, and harm society as a whole.

This Court's observation from a century ago is apt here: "The perfect instrument of favoritism and oppression which such a system of doing business, if valid, would put into the control of the owner of such a patent, should make courts astute, if need be, to defeat its operation." *Motion Picture Patents*, 243 U.S. at 515. The Court should be mindful of the inevitable efforts to circumvent the first-authorized-sale rule and act with a view to "defeat[ing] [the] operation" of such schemes. Any commercial arrangement whereby a patentee seeks to collect multiple royalties on a product—or seeks to extend its patent rights into the downstream market—threatens the same negative economic outcomes that this Court has decried. The Court should speak clearly and broadly to ensure that the patent-exhaustion rule forecloses all future attempts to circumvent it.

2. Extinguishing patent rights after the first authorized sale does not leave the patentee with no means of controlling its patented articles. Time and again, this Court has explicitly recognized that a patentee may be able to enforce downstream restrictions via contract law,

even if its patent rights are exhausted. See *Quanta Computer*, 553 U.S. at 637 n.7 ("We note that the authorized nature of the sale to [the customer] does not necessarily limit [the patentee's] other contract rights. * * * [W]e express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages."); *Motion Picture Patents*, 243 U.S. at 509 ("The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question outside the patent law, and with it we are not here concerned."); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) ("Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion.").

Contract remedies adequately protect sellers outside of the patent context, and patentees warrant no greater protections after the first authorized sale. To be sure, patent law provides more robust remedies by dispensing with the privity requirement and allowing injunctive relief. But those remedies are extraordinary for a reason. They are powerful measures that protect interests of the highest importance—such as a patentee's right to control the first sale of a patented article. A patentee's interest in a downstream purchaser's use of its patented article is more akin to that of any seller wishing to impose downstream restrictions, and contract law suffices to protect those lesser interests.

II. This Court's Precedents And Other U.S. Law Support The Presumptive-Exhaustion Rule For Foreign Sales Of Patented Articles

A. Patent rights are territorial. U.S. patent law imposes penalties only on "whoever without authority makes, uses, offers to sell, or sells any patented inven-

tion, *within the United States* or imports *into the United States* any patented invention." 35 U.S.C. § 271 (emphases added). Such conduct outside the United States is beyond the reach of U.S. patent law, as this Court has recognized: "[O]ur patent system makes no claim to extraterritorial effect; these acts of Congress do not, and were not intended to, operate beyond the limits of the United States." *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 444 (2007) (quoting *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972)). And just as U.S. patent law does not apply abroad, foreign patent law does not apply in the United States. See *ibid.* ("[W]e correspondingly reject the claims of others to such control over our markets.") (quoting *Deepsouth Packing*, 406 U.S. at 531).

The territorial nature of patent rights affects the application of the first-authorized-sale rule. While a domestic first sale *necessarily* implicates U.S. patent rights, a foreign sale does not always do so. U.S. patent law applies within the United States, and thus a sale of a patented article domestically is an act inherently tied to the U.S. patent rights. Because U.S. patent law does not apply in foreign markets, interaction with U.S. patent rights is not an essential feature of a foreign sale. To be sure, a foreign sale could implicate U.S. patent rights, such as if it included an express waiver of those rights, but that type of interaction is not a necessary element of the foreign sale. Given this different context, a modified version of the first-authorized-sale rule should apply to foreign sales. While it is reasonable to treat an unconditional foreign sale as implicitly exhausting U.S. patent rights, patentees should be able to preserve those rights with an express reservation.

This presumptive-exhaustion approach makes economic sense as well. It allows the patentee/authorized licensee and the customer flexibility to construct transac-

tions that best meet the needs of both parties. If a foreign customer plans to resell the item in the United States, either on its own or as a component part of a finished product, then that customer will negotiate a higher price in exchange for an unconditional sale that includes the U.S. patent rights. In contrast, if a foreign customer plans only to resell the patented article in the foreign country of purchase, then that customer will negotiate a lower price in exchange for the patentee being able to retain its U.S. patent rights to the item. This added flexibility facilitates more efficient economic transactions between the patentee/authorized licensee and its customers.

For all of these reasons, courts have long followed the presumptive-exhaustion rule in this area. Foreign sales without any express reservation exhaust the patentee's U.S. patent rights. See *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920); *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 938 (D.N.J. 1983); *Holiday* v. *Matheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885). But foreign sales made with a reservation of U.S. patent rights effectively preserve those rights. See *Dickerson* v. *Tinling*, 84 F. 192, 194 (8th Cir. 1897); *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir. 1893); *Griffin* v. *Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283, 1284-1285 (E.D. Pa. 1978).

B. This Court's opinion in *Boesch* v. *Graff*, 133 U.S. 697 (1890), is consistent with that approach. That case involved an unauthorized but lawful sale in Germany of a product protected by a U.S. patent. *Id.* at 702-703. The sale was deemed lawful by German law, which did not in this instance require the U.S. patentee to authorize the sale. *Ibid.* That left the Court to decide whether a lawful, but unauthorized, foreign sale exhausts U.S. patent rights. The Court answered in the negative, reasoning from the territoriality of patent law: "The sale of articles

in the United States under a United States patent cannot be controlled by foreign laws." *Id.* at 703.

Boesch informs the issue here because it recognizes that lawful foreign sales will not always exhaust U.S. patent rights. Some authorization by, or at least involvement of, the U.S. patentee is required. The presumptive-exhaustion rule favored by U.S. courts is entirely consistent with that reasoning. It ensures that the patentee can prevent foreign sales from exhausting U.S. patent rights, while still honoring the spirit and economic benefits of the first-authorized-sale rule.

C. This Court's decision upholding foreign first-sale exhaustion in the copyright context in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), provides further support for adopting a presumptive-exhaustion rule in the patent context. Interpreting 17 U.S.C. § 109(a), the Court held that the first-sale provision's reference to copies "lawfully made under this title" contains no geographic limitations and therefore applies to copies lawfully made abroad. *Id.* at 1355-1356. Thus, the Court concluded that a lawful, foreign first sale of a copyrighted item exhausts U.S. copyright liability as to that item.

Kirtsaeng's holding does not dictate the outcome here because patent and copyright "are not identical twins" that are automatically amenable to precisely the same regulatory regime. *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). That is especially true here, because there is no analogue to 17 U.S.C. § 109(a) in patent law and thus no textual basis for treating foreign sales identically to domestic ones.

Patent exhaustion is instead purely a common-law doctrine. As *Kirtsaeng* explained, the ancient common-law rule strictly "refus[ed] to permit restraints on the alienation of chattels." 133 S. Ct. at 1363. The *Kirtsaeng* Court reasoned that the copyright statute's geographically unlimited text supports applying the common-law ex-

haustion rule to foreign sales of copyrighted items, and it found no other reason to "rebut a 'straightforward application' of that doctrine." *Id.* at 1364.

By contrast, the last 130 years of *patent* case law reflect that the traditional common-law first-sale rule has been modified with respect to foreign sales of U.S.-patented items. See *supra* at 11. Under these cases, a patentee may expressly reserve U.S. patent rights in a foreign sale, but if it fails to do so, the foreign sale exhausts U.S. patent rights. This approach honors the territorial nature of patent rights.

Moreover, multiple U.S. trade agreements are premised on the presumptive-exhaustion rule captured by the case law. These agreements explicitly recognize the right of a U.S. patentee to prevent importation of a patented product notwithstanding a foreign sale, if the patentee had placed limitations on such importation. See United States-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-286, 118 Stat. 919 (art. 17.9.4 of implemented agreement); United States-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, 118 Stat. 1103 (art. 15.9.4 of implemented agreement); see also Pet. App. 87a-88a & nn.22-23 (quoting relevant provisions). Neither extreme alternative presented by the parties can be reconciled with these agreements. If foreign sales never cause exhaustion—as the Federal Circuit held—the provisions would be superfluous. And if foreign sales always cause exhaustion—as petitioner urges—the provisions would be contrary to U.S. law.

Another reason to avoid uncritically applying *Kirtsaeng*'s rule here is that a central aspect of *Kirtsaeng*'s reasoning does not hold true in the patent context. 17 U.S.C. § 109(a) applies only to copies "lawfully made under this title," and thus the question before the Court in *Kirtsaeng* was whether copies lawfully made

abroad qualified for that statutory first-sale rule. 133 S. Ct. at 1355. If the Court had held that the first-sale exhaustion statute did not apply to foreign-made copies, those copies would have been permanently exempted from the first-sale rule, even if they were later imported into or sold in the United States. That would yield the "absurd result that the copyright owner can exercise downstream control even when it authorized the import or first sale" in the United States. *Id.* at 1366. No such absurd result would follow from adopting the presumptive-exhaustion rule in the patent context, however, because the domestic first-authorized-sale rule would exhaust any patent rights upon the first authorized domestic sale, regardless of the item's country of origin.

Absent a statutory patent analogue to the first-sale provision at issue in *Kirtsaeng*, this Court remains free to fashion a common-law rule that respects the unique nature of patent rights, as reflected in both longstanding precedent and recent trade agreements. The presumptive-exhaustion rule advocated by the Acting Solicitor General is the legal regime most in keeping with U.S. law.

CONCLUSION

Huawei Technologies Co., Ltd. respectfully requests that the judgment of the Court of Appeals be vacated for the reasons set forth above.

Respectfully submitted.

SCOTT F. PARTRIDGE
AARON M. STREETT
Counsel of Record
J. MARK LITTLE
BAKER BOTTS L.L.P.
910 Louisiana St.
Houston, TX 77002
(713) 229-1234
aaron.streett@bakerbotts.com

Counsel for Amicus Curiae Huawei Technologies Co., Ltd.

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v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

ON WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICUS CURIAE* IMAGING SUPPLIES COALITION IN SUPPORT OF RESPONDENT LEXMARK INTERNATIONAL, INC.

Mark Schonfeld
Counsel of Record
Sara Beccia
BURNS & LEVINSON LLP
125 Summer Street
Boston, Massachusetts 02110
(617) 345-3000 (Telephone)
(617) 345-3299 (Facsimile)
mschonfeld@burnslev.com
sbeccia@burnslev.com

Counsel for Amicus Curiae ***Dated: February 22, 2017***

THE LEX GROUP^{DC} ♦ 1825 K Street, N.W. ♦ Suite 103 ♦ Washington, D.C. 20006
(202) 955-0001 ♦ (800) 856-4419 ♦ Fax: (202) 955-0022 ♦ www.thelexgroup.com

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

Imaging Supplies Coalition submits this brief[1] in support of Lexmark International, Inc. to urge the Court to uphold the rulings of the *en banc* Court of Appeals for the Federal Circuit regarding important issues related to patent exhaustion. The Federal Circuit's opinion below strikes the proper balance between protecting the rights of patentees and limiting those rights through the exhaustion doctrine.

Imaging Supplies Coalition ("ISC") is a nonprofit organization dedicated to protecting the interests of consumers and original equipment manufacturers ("OEMs") of consumable imaging supplies and equipment. The members of the ISC are: Brother International Corporation, Canon U.S.A., Inc., Epson America Inc., Hewlett-Packard Company, Lexmark International, Inc., Samsung Electronics America, Inc. and Xerox Corporation.

Founded in 1994, ISC's mission is to protect its members' customers from misrepresented

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[1] No counsel for a party authored this brief in whole or in part. No party or party's counsel contributed money intended to fund preparing or submitting the brief. Some members of the ISC (but not including Lexmark International, Inc.) made a monetary contribution intended to fund preparation or submission of this brief. No person -- other than *amicus curiae*, some of its members, or its counsel -- made a monetary contribution to its preparation or submission. Respondent's blanket letter of consent to the filing of *amicus* briefs has been filed with this Court. Petitioner's consent dated February 8, 2017 is being submitted herewith.

products and services by seeking the worldwide protection of intellectual property and related assets of stakeholders in the imaging supplies industry. ISC dedicates substantial effort and resources to educate, empower and protect distributors, suppliers and consumers in the battle to eliminate illegal activities in the imaging supplies industry. It accomplishes this mission by training and education, collaboration with law enforcement, public relations activity and supporting the efforts of OEMs and other rights holders to enhance and protect intellectual property rights. In its 23-year history, the ISC has accomplished a great deal in combating infringement and fraud. Its efforts have established the ISC as an international force in the imaging supplies industry as well as a leading organization in intellectual property rights protection.

ISC members invest substantial resources and effort in researching and developing new technology for the imaging supplies industry and protecting this new technology through intellectual property rights. To protect these investments, the ISC and its members must also spend significant resources fighting infringement. Because consumable imaging supplies and equipment are a repeat market with a ready supply of empty consumed units, it is relatively easy for infringers and arbitragers to create an illegal aftermarket in imaging supplies. Consequently, OEMs in the imaging supplies industry must wage a constant battle against unauthorized and infringing activity to protect their valuable intellectual property rights, to maintain the goodwill associated with their brands, and to protect

their consumers from inferior products that trade off the OEMs' well-earned reputations.

Maintaining strong intellectual property rights and supporting enforcement activities of rights owners are crucial to the ISC's mission. OEMs rely upon their patent rights in making many important business decisions, including decisions related to: investments in research and development for new technology; global product availability and pricing; the structure of licensing agreements, including worldwide royalty payments; intellectual property ownership and portfolio management plans; and patent protection and enforcement, including anti-counterfeiting and gray market prevention. Accordingly, stable and uniform precedent regarding patent rights is important to the ISC, to its members and to the U.S. economy. For these reasons, the ISC submits this brief as *amicus curiae* urging this Court to affirm the Federal Circuit's thorough and well-reasoned decision below on important issues defining the doctrine of patent exhaustion.

SUMMARY OF ARGUMENT

The Federal Circuit, supported by its own existing precedent and a long line of decisions from this Court, held that: (1) patent rights are not exhausted by sales made under a valid restricted-use license (*Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992)) and (2) patent exhaustion does not arise from authorized sales made overseas (*Jazz Photo Corp. v. ITC*, 264 F.3d 1094 (Fed. Cir. 2001)). This Court should affirm the decision below and uphold the rules of patent exhaustion set forth by

the Federal Circuit. To do otherwise would be inconsistent with long-standing and stable precedent with respect to the patent exhaustion doctrine. The rules and limits on the patent exhaustion doctrine set forth in the decision below have been relied upon by rights owners in:

(i) developing and investing in innovative new products;

(ii) supporting the availability of products in less-developed countries through price differentiation and market segmentation;

(iii) designing and executing programs against infringement and gray market exploitation;

(iv) structuring and relying upon valid patent license use-restrictions that incentivize innovation and reward research and development; and

(v) developing important policies and programs that enhance consumer choice, quality control and OEM reputation, health and safety, and environmental preservation.

Neither law nor policy supports overturning the reasoning and rulings set forth by the Federal Circuit. ISC supports Lexmark's position that the decision of the Federal Circuit below must be affirmed because: (1) sales made under a lawful and

valid use-restriction do not exhaust patent rights and (2) sales made outside the United States do not give rise to patent exhaustion.

ARGUMENT

I. Existing Law and Public Policy Support the Rule that Patent Exhaustion Does Not Apply to Sales Made Under Lawful and Valid Use Restrictions.

In upholding and reaffirming its decision in *Mallinckrodt*, the Federal Circuit ruled that patent exhaustion does not apply to sales made under a lawful and valid use-restriction. *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 773-4 (Fed. Cir. 2016). This Court should affirm the ruling below because a rule of patent exhaustion that permits valid use restrictions is well-grounded in both law and policy. Furthermore, the ruling is not in conflict with this Court's decision in *Quanta Computer, Inc. v. LG Electronics, Inc.* Indeed, respecting patentees' freedom to contract with respect to their patent rights (including the freedom to make conditional sales like those at issue in *Mallinckrodt*) benefits public welfare through wider dissemination of patented technology, greater quality and safety control, and lower prices that give consumers more freedom of choice in making purchasing decisions.

A. Precedent Supports the Federal Circuit's Ruling Below.

This Court has a long history of permitting restricted conditional sales or licenses without triggering exhaustion of patent rights. *See General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1937); *American Cotton-Tie Co. v. Simmons*, 106 U.S. 89 (1882); *Mitchell v. Hawley*, 83 U.S. 544 (1873). Following this long line of precedent, the rule espoused by the Federal Circuit below is clear, well-reasoned and consistent with over a century of related Supreme Court precedent. *See Lexmark*, 816 F.3d at 735-753 (examining and analyzing the long line of cases that support valid use restrictions without exhaustion of rights); Robert W. Gomulkiewicz, *The Federal Circuit's Licensing Law Jurisprudence: Its Nature and Influence*, 84 Wash. L. Rev. 199, 225 (2009) (noting that the *Mallinckrodt* decision cites more than twenty Supreme Court cases and that it would be hard to argue that the Court ignored Supreme Court case law in *Mallinckrodt*).

The rule that valid conditional sales do not exhaust patent rights is consistent with established principles of law and with relevant policy considerations. Importantly, use restrictions do not prevent the purchaser from using the article transferred under license for its intended purpose. John W. Osborne, *Justice Breyer's Bicycle and the Ignored Elephant of Patent Exhaustion: An Avoidable Collision in* Quanta v. LGE, 7 J. Marshall. Rev. Intell. Prop. L. 245, 262 (2008). In addition, valid use restrictions do not unlawfully extend the

scope of the patents at issue. *Id.* (the asserted claim covered the device sold and there was no attempt to expand the scope to cover something not patented). Furthermore, the rule in *Mallinckrodt* does not allow for double dipping and collecting separate royalties for the same article. *Id.* (noting "the royalty received by the patentee in *Mallinckrodt* was bargained for based on a single use of the patented article"). Instead, "common field of use restrictions...have been part of patent licensing for hundreds of years in complete accord with Supreme Court precedent." *Id.* at 283. Consistent with Supreme Court precedent and widespread industry practices, valid use restrictions that are "within the scope of the patent grant or otherwise justified" do not exhaust patent rights. *Mallinckrodt*, 976 F.2d at 709.

B. *Quanta* Did Not Overrule *Mallinckrodt*.

In *Quanta*, the Supreme Court determined that an *unconditional* first sale exhausted patent rights. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008). Specifically, this Court found that "[the license agreement] broadly permits Intel to 'make, use, [or] sell' products free of LGE's patent claims," that "Intel's authority to sell its products embodying the LGE Patents was not conditioned on [notice of restrictions or compliance with such notice]" and that "[n]o conditions limited Intel's authority to sell products substantially embodying the patents." *Id.* at 636-67.

Quanta dealt with an unconditional sale, not a restricted use condition. Accordingly, *Quanta* does

not conflict with the precedent set by *General Talking Pictures* and followed by *Mallinckrodt*. *See* Erin Julia Daida Austin, Note, *Reconciling the Patent Exhaustion and Conditional Sale Doctrines in Light of Quanta Computer v. LG Electronics*, 30 Cardozo L. Rev. 2947, 2974 (2009) ("[g]iven that the unanimous *Quanta* opinion does not overrule *General Talking Pictures* but rather distinguishes it, the conditional sale doctrine should still be viewed as good law"); Gomulkiewicz, *supra*, at 237 (concluding that the Supreme Court in *Quanta* "quietly affirmed *Mallinckrodt* and its progeny").

C. Valid Use Restrictions Reduce Health, Safety and Quality Problems.

The public benefits from valid use restrictions that are put in place to mitigate important health, safety and quality problems. Allowing conditional sales without exhausting patent rights encourages downstream users and purchasers to comply with such restrictions, including in situations that can be, quite literally, life and death. Indeed, as was the case in *Mallinckrodt*, single-use restrictions are often designed to avoid important and potentially life-threatening consequences. *See Mallinckrodt*, 976 F.2d at 702. In particular with medical devices or equipment, unless these articles are limited to a single use, there are risks of infections, disease transmission, material instability, and decreased diagnostic performance. *Id. See* Eucomed Medical Technology, *Eucomed White Paper on the reuse of single use devices*, 6-16, Dec. 15, 2009, http://www.medtecheurope.org/sites/default/files/reso

urce_items/files/15122009_MTE_Eucomed%20White%20Paper%20on%20the%20reuse%20of%20single%20use%20devices_Backgrounder.pdf (discussing the benefits of single-use devices in the medical field and the risks of reprocessing them). The current rule recognizes that single-use restrictions are a valid way of addressing these crucial concerns for public safety by the OEMs, who are in the best position to know the dangers and risks associated with their products.

In all types of industries, use restrictions allow OEMs to protect consumers from potential ill effects associated with the unauthorized reuse of their products. The *Mallinckrodt* scenario illustrates the beneficial health effects of single-use restrictions for medical products. With respect to the members of ISC, used cartridges or imaging supplies that are refilled and/or unlawfully modified to circumvent use-restrictions are more susceptible to malfunctions and poor performance. This could affect the consumer's experience and may result in a consumer blaming the OEM for inferior performance, rather than the company that refilled the product. The single-use restriction reduces the number of items that will be unlawfully modified and shoddily refurbished in the aftermarket thereby reducing the likelihood that consumers will purchase inferior and/or faulty products. By reducing the number of inferior or malfunctioning aftermarket products in the stream of commerce, it allows the OEMs to maintain control over the quality of their products and the goodwill associated with their brands. *See Lexmark*, 816 F.3d at 752.

Both OEMs and consumers benefit when the products that enter and remain in the marketplace are safe, reliable and of the quality intended by the OEM and expected by the consumer. Valid use restrictions that do not exhaust patent rights are consistent with current policies and practices in today's marketplace. If these use restrictions were no longer a valid way to retain certain "sticks" in the bundle of patent rights, the incentive for OEMs to offer these programs and the expectations of consumers in purchasing use-restricted items would suffer.

D. Important Policy Considerations of Research and Development Investment and Efficient Economic Development Are Fostered by Allowing Use Restrictions Without the Exhaustion of Rights.

Allowing valid use restrictions recognizes the complexities of patent licensing in today's economy and allows for transactions that acknowledge the importance of rewarding patentees for their investment and development of new technologies. The policy rationale underlying the patent exhaustion doctrine is that rights are exhausted once a "patentee has bargained for, and received, an amount equal to the full value of the goods." *B. Braun Med., Inc. v. Abbot Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997). This rationale does not apply, however, to a conditional sale or license that includes use restrictions. Instead, "it is more reasonable to infer that the parties negotiated a

price that reflects only the value of the 'use' rights conferred by the patentee." *Id.*

The recognition that patentees may reserve certain of their rights within the scope of their patent grant respects the exclusive rights granted by the award of a patent. Overruling *Mallinckrodt* would weaken the rights of patentees in a way that could significantly change the way businesses prioritize and invest in new technology and inventions. *See* Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 1, pp. 1-2 (2003) ("FTC Innovation Report") (recognizing that stable and strong patent policy "encourages prospective inventors to invest time and money in inventions, because a patent's grant of the exclusive right to make, sell and use the invention for a certain period of time can allow inventors to realize returns sufficient to encourage initial investments"). Indeed, "field-of-use, territorial, and other limitations on intellectual property licenses may serve pro-competitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible." U.S. Dep't of Justice and Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property*, p. 5 (January 12, 2017).

Patented articles often require millions of dollars in research and development and years to bring to the marketplace. *See* FTC Innovation Report at ch. 3, p. 5 (summarizing testimony from pharmaceutical industry representatives regarding the substantial amount in development costs, often over the course of 10-15 years, to bring a new

drug product to market), at ch. 3, pp. 15-16 (summarizing testimony from biotechnology industry representatives regarding the immense research and development spending and the difficulties in commercializing biotechnology innovation). In light of these costs, OEMs rely on patent rights and carefully structured licensing arrangements to reduce transaction costs, promote new ideas, and mitigate losses in revenue that they may experience due to after-market arbitrage. *See* Osborne, *supra*, at 246 (overruling *Mallinckrodt* "would be a major change in the law and would significantly affect longstanding licensing practices which have served to facilitate the efficient dissemination of patented technologies"); Jared Tong, Comment, *You Pay for What You Get: The Argument for Allowing Parties to Contract Around Patent Exhaustion*, 46 Hous. L. Rev. 1711, 1733-34 (2010) ("If the patent system was created to adequately reward inventors for their inventions and encourage innovation, then surely arbitrage undermines one of the pillars of the patent system.").

Furthermore, use restrictions allow the patentee to exploit its patent rights in different markets or in new and innovative applications without fear of weakening or jeopardizing its patent rights. Austin, *supra*, at 2977 ("Field-of-use restrictions can facilitate the ability of the patentee to exploit its patent rights in different markets, technologies, or applications, with end users benefiting from this wider exploitation."). Indeed, the use of a new product may require access or practice of another patented item, effectively "blocking" improvements or innovations. *Antitrust*

Guidelines for the Licensing of Intellectual Property at p. 5. Allowing limitations on intellectual property licenses, such as restricted-use licenses and sales, can "serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible." *Id.*

By allowing rights holders the freedom to protect their market niche while still allowing exploitation of their innovations in other markets or areas, consumers and the public benefit from the reduction of costs and the introduction of novel products, and a competitive and innovative marketplace thrives. *Id.*

The rule in *Mallinckrodt* recognizes that patent licenses and sales of patented products are complex and motivated by important economic, policy, and health and safety concerns. Allowing patentees to consider how these concerns bear on each transaction and to retain certain rights through valid use-restrictions, rather than imposing an "all or nothing" approach to patent rights, is an important aspect of U.S. patent law that has been relied on by patentees and licensees and should be upheld by this Court.

E. Valid Use Restrictions Aid in Beneficial Public Welfare Participation by OEMs, Including Environmental Preservation and Recycling Programs and Anti-Counterfeiting Efforts.

Not only do use restrictions incentivize research and development by rights holders but they also allow patent holders to engage in and develop useful programs that benefit society as a whole. Importantly, use restrictions can aid anti-counterfeiting programs and contribute to successful environmental preservation and recycling programs.

With respect to anti-counterfeiting and gray market goods, when spent items are returned to the OEM after one use, it limits the opportunity for unauthorized reuse or resale and therefore decreases the amount of knockoff items in the stream of commerce. Single-use restrictions provide OEMs with one more tool to combat the ever-growing problems associated with counterfeit and unauthorized goods entering the marketplace.

Furthermore, use and return programs, like the one operated by Lexmark through its single-use cartridge sales, have environmental benefits. When the items are returned to OEMs, they can be disposed of or properly recycled. OEMs are in the best position to track, control and improve programs for the proper disposal or recycling of spent-items and, in fact, ISC members have been operating successful collection and recycling programs for decades. *See* Canon: Consumable Recycling

Programs For Customers, http://downloads.canon.com/nw/about/Recycling-Brochure.pdf (last accessed February 10, 2017) (discussing Canon's cartridge recycling program which was introduced in 1990 and has resulted in the collection of more than 378,000 tons of cartridges around the world); Epson and the Environment: Product Recycling, http://global.epson.com/SR/environment/recycle/ (last accessed February 10, 2017); Brother Environmental Programs, http://www.brother-usa.com/Environment/ (last accessed February 10, 2017); HP Product return & recycling, http://www8.hp.com/us/en/hp-information/environment/product-recycling.html (last accessed February 10, 2017); Samsung S.T.A.R. Program, http://pages.samsung.com/starus/index.jsp (last accessed February 10, 2017); Xerox Green World Alliance, https://www.xerox.com/perl-bin/product.pl?mode=recycling&XOGlang=en_US&referer=xrx (last accessed February 10, 2017).

F. Allowing Valid Use Restrictions Without Exhausting Patent Rights Results in More Choices for Consumers.

Single-use restrictions benefit consumers by allowing manufacturers to sell patented products more economically to consumers who agree that their expended products will not be refurbished or reused. When given the choice of less expensive products, many consumers opt for the single-use restrictions. This gives consumers an "immediate up-front benefit." *Lexmark*, 816 F.3d at 752. In addition, a single-use restriction enables a consumer

to make an eco-friendly choice, while simultaneously paying a lower price for the product. *See* The Nielsen Company, *Green Generation: Millennials Say Sustainability Is a Shopping Priority*, (November 5, 2015) (noting that sustainable products are increasingly in demand).

II. Sales of Patented Articles Made Outside the U.S. Do Not Exhaust Patent Rights.

This court's holding in *Kirtsaeng* does not impact the long-standing exhaustion doctrine that the sale of a patented article that takes place outside the United States does not exhaust the U.S. patent rights in that article. The rule of international patent exhaustion advocated by Impression Products conflicts with existing precedent and the sound reasoning of this Court. Furthermore, important policy considerations warrant upholding the centuries-long held precedent of this Court on which existing market practices are built.

A. *Kirtsaeng* Rested Solely on Statutory Interpretation of the Copyright Act and It Does Not Apply to the Doctrine of Patent Exhaustion.

Kirtsaeng is a copyright case. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). The analysis and holding in *Kirtsaeng* that construed a phrase from the Copyright Act -- "lawfully made under this title" -- as having a non-geographical interpretation simply do not apply to patent exhaustion. *See Id.* at 1358. This Court examined

the history and language of the Copyright Act and did "no more [in *Kirtsaeng*] than try to determine what decision Congress has taken" with respect to the exhaustion of rights for works manufactured abroad. *Id.* at 1371. Although Congress may have purposefully delineated international exhaustion in the Copyright Act, it did not do so in the Patent Act.

Instead, patent exhaustion rules are a product of judicially-made common law. *See Quanta*, 533 U.S. at 625 (discussing the longstanding doctrine of patent exhaustion and its roots in early 19th century cases). For over 150 years, a body of jurisprudence has developed to strike a balance between the limited monopoly granted by a patent and the doctrine of exhaustion by "limit[ing] the patent rights that survive the initial authorized sale of a patented item." *See id.* at 621. Part of this balance includes the rule of territorial exhaustion set forth in *Jazz Photo* and reaffirmed by the Federal Circuit below that "United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent." *Jazz Photo*, 264 F.3d at 1105. This territorial exhaustion rule, which originated with this Court's ruling in *Boesch v. Graff* in 1890, has been relied upon for over a century by courts and by rights holders. *See Boesch v. Graff*, 133 U.S. 697, 701-03 (1890).

Accordingly, analyzing and applying the doctrine of patent exhaustion is not a matter of statutory interpretation as it is under the Copyright Act. There is no analogous language in the Patent

Act that can be compared to the language in the Copyright Act that was crucial to the ruling in *Kirtsaeng*. In fact, to the extent this Court were to examine the Patent Act to engage in comparable statutory interpretation to that employed in *Kirtsaeng*, it would find express provisions in favor of a territorial exhaustion rule. Specifically, the Patent Act includes an explicit territorial limitation on acts of infringement and sets forth a separate basis for infringement based upon importation of patented articles from abroad. 35 U.S.C. § 271. This importation right was amended into the Patent Act in 1994 as a result of the U.S.'s ratification of the TRIPS Agreement, which, importantly, expressly disclaimed any effect on the exhaustion doctrine. Uruguay Round Agreements Act, Pub. L. No. 103-465, §§ 532-533 (1994); TRIPS, art. 6, Apr. 15, 1994, Marrakesh Agreement ("For the purpose of dispute settlement under this Agreement, subject to the provision of Articles 3 and 4, nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."). These provisions are consistent with the doctrine of territorial patent exhaustion. Patent laws "do not, and were not intended to, operate beyond the limits of the United States" and the territorial exhaustion rule is consistent with that axiom. *Brown v. Duchesne*, 60 U.S. 183, 195 (1857).

Instead, a long line of binding precedent defines the doctrine of patent exhaustion and informs its application to the issues in *Jazz Photo* and before the Court today. These patent cases are and should remain good law. Indeed, this Court recently emphasized the importance of *stare decisis*

to ensure certainty, consistency, and stability in the administration of justice - goals that would not be served by reading a ruling on patent exhaustion into *Kirtsaeng*. *See Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2409 (2015). Consistent with the principles set forth in *Kimble*, this Court's long-standing precedent of *Boesch v. Graff* should be preserved and respected. The copyright ruling in *Kirtsaeng* does not and should not overrule the doctrine of territorial patent exhaustion and this Court should affirm the well-reasoned and thorough decision of the Federal Circuit.

B. Patents and Copyrights are Different and Should be Treated Differently With Respect to Exhaustion of Rights.

The goals and functions of patent law and copyright law are distinct. These distinctions have long been recognized by this Court, having first examined the issue of exhaustion and first sale in the copyright context. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 346 (1908) ("[t]here are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes"). In light of these differences, copyright cases are not and should not be controlling on substantive issues related to patent law. *Id.*; *LifeScan Scotland, Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1376 (Fed. Cir. 2013) (noting that copyright cases may reinforce conclusions of patent law, but are not controlling on such matters).

Because patent rights and copyrights are very different, so too are the policy reasons for either strengthening these rights or limiting them through doctrines like exhaustion. Simply put, copyright protection is easy to get, lasts for a very long time, and requires no formal examination or notice to the public before it takes effect. Specifically, copyright applies automatically upon creation of a work, requires only minimal degrees of creativity and originality, and lasts for up to 70 years beyond the death of the author or 120 years from creation. *See* 17 U.S.C. § 102 (subject matter); 17 U.S.C. § 302 (duration).

Patents are very different. Patent protection is reserved for novel and useful inventions which must undergo stringent examination and review before patent rights are granted. 35 U.S.C. §§ 101-103 (patentable subject matter); 35 U.S.C. §§ 131-135 (examination). As a result, patented articles generally require more research and investment in up-front development costs, as well as more time and money to obtain patent protection than copyrighted works. *See Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974). Furthermore, the duration of patent rights (20 years) is much shorter than copyrights, which means that, as compared to authors of copyrighted works, patentees enjoy a relatively short period of exclusivity, especially considering the time and investment required to secure a patent. *See* 35 U.S.C. § 154 (patent duration). Finally, the types of creations protected under each regime are very different; copyright law traditionally protects artistic expressions, while patent law protects useful inventions.

These significant differences between copyrights and patents warrant different treatment by the courts and the legislature. For example, the justifications for enhancing the protections granted to a life-saving patented drug or a break-through technology simply do not apply to a novel, text book or photograph that may enjoy the benefits of copyright protection. While both may be important, they serve very different roles in society. Because of these differences, and the different policy considerations discussed below, this Court should uphold the Federal Circuit's rule of domestic exhaustion.

C. Important Policy Considerations Favor the Long-Standing Rule That Sales Abroad Do Not Give Rise to Patent Exhaustion.

Important policy considerations support the domestic exhaustion rule that was affirmed by the Federal Circuit and that should remain unchanged by *Kirtsaeng*. Indeed, the relative rights of patentees, competitors and the consuming public are best served by the rule of territorial patent exhaustion. Turning this long-standing rule on its head and instituting a rule of international exhaustion would change the way U.S. patentees do business in today's global economy and would change the U.S. marketplace for the worse – for both companies and consumers. The current rule of territorial exhaustion allows OEMs to participate in global trade and yet still protect their significant investment in patented items and inventions and their brand reputation in the U.S. market.

1. The Territorial Rule of Exhaustion Properly Incentivizes Innovation in the U.S. and Supports Economic Development.

The policy goal of incentivizing and rewarding innovation is central to U.S. patent laws. *Kewanee*, 416 U.S. at 480 ("The patent laws promote this progress by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development."). Intellectual property rights allow patentees to obtain a return on their investment in new inventions which, in turn, incentivizes further innovation and dedication of resources to research and development. *See* Shubha Ghosh, *Pills, Patents, and Power: State Creation of Gray Markets as a Limit on Patent Rights*, 14 Fla. J. Int'l L. 217, 224 (2002) (noting that the large fixed costs of developing patented products will not be expended unless there is a guarantee of reasonable return from the investment).

An international exhaustion rule would lead to rewards and incentives for the wrong parties – the unauthorized importers and arbitragers who take advantage of lower prices overseas to make a profit and to infringe the rights of U.S. patentees. Even if U.S. consumers would benefit from lower prices from overturning the territorial exhaustion rule, the proper metric for the overall welfare must consider that U.S. citizens are both consumers and patentees. Daniel J. Hemel and Lisa Larrimore Ouellette, *Trade and Tradeoffs: The Case of International Patent Exhaustion*, Colum. L.

Rev. Online, Vol. 116, Sec. II, para. 7 (2016), *available at* http://columbialawreview.org/content/trade-and-tradeoffs-the-case-of-international-patent-exhaustion/. The "enormous costs in terms of time, research, and development" borne by the patentee are eroded by gray market arbitragers and unauthorized importers without a corresponding benefit to the patentee and without recourse under U.S. patent law. If gray market goods are offered at lower prices than legitimate goods and OEMs are priced out of their own market, they will be less likely to invest in new technology because they will be unable to recoup their investment.

By maintaining the territorial rule advanced by the Federal Circuit, U.S. patent law serves its goal of promoting innovation and development by patentees, who expend substantial resources and time on research and development to bring new inventions to market. Fostering these goals furthers growth of the U.S. economy and benefits the consuming public. *See Kewanee*, 416 U.S. at 480 (incentivizing innovation through patent protection leads to "a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens"); David R. Sugden, *Gray Markets: Prevention Detection and Litigation*, at 51, Oxford University Press (2009) ("[e]nsuring that individuals and companies collect their R&D costs ultimately benefits consumers" whose lives are improved by innovative products).

2. Upholding the Federal Circuit Allows for Beneficial Global Price Differentiation and Market Segmentation.

An international patent exhaustion doctrine assumes that the sale of a product abroad will yield the desired "single reward" to the patentee. However, this approach ignores global price differentiation and market differences that are beneficial to worldwide consumers and necessary for patentees' participation in a global market. Effective global price differentiation requires effective controls on gray markets, including allowing patentees to enforce their U.S. patent rights against unauthorized imports under the rule of *Jazz Photo*. *See* Jeffery Atik and Hans Henrik Lidgard, *Embracing Price Discrimination: TRIPS and the Suppression of Parallel Trade in Pharmaceuticals*, 27 U. Pa. J. Int'l Econ. L. 1043, 1058 (2006).

Importantly, the level and nature of patent protection in foreign countries may contribute to price differentials in different global markets. In the United States, inventors can rely on a well-developed body of patent law and effective enforcement of their patent rights to protect their considerable investments in developing innovative products. In many international markets, by contrast, it is difficult or impossible to register patents and enforce patents rights. *See Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 455 (2007) ("foreign law may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions") (internal

quotations omitted). In foreign markets with ineffective or insufficient patent protection, companies that make innovative products must lower their prices to compete with other companies that produce low cost, cloned versions of the same product without the considerable costs of development. *See* Michele L. Vockrodt, *Patent Exhaustion and Foreign First Sales: An Analysis and Application of the* Jazz Photo *Decision*, 33 AIPLA Q.J. 189, 199 (2005).

Price differentiation can also be driven by a number of different economic factors, including fluctuations in currency exchange rates, tax differences, different consumer preferences or abilities to pay, and differing distribution channels. Alvin Galstian, *Protecting Against the Gray Market in the New Economy*, 22 Loy. L.A. Int'l & Comp. L. Rev. 507, 508 (2000); Paul Lansing & Joseph Gabriella, *Clarifying Gray Market Gray Areas*, 31 Am. Bus. L.J. 313, 314 (1993). Various governments also subsidize the cost of certain goods, such as medicine and laptops for children. Hemel and Ouellette, *supra*, at Sec. II, para. 1.

Furthermore, there may be public welfare reasons for encouraging market segmentation and price differentiation. Specifically, patentees may offer patented articles at a low price in one market to encourage development and growth or to improve health and safety in countries stricken by disease or misfortune. Market segmentation allows OEMs to participate and compete in a global economy by structuring their pricing in ways that take into consideration all of the factors associated with doing

business in that foreign market, including currency fluctuation, patent protection, taxes, distribution channels and public welfare concerns.

Moreover, this geographic price discrimination provides for certain economic efficiencies, as compared with a single worldwide price, which would likely result in consumers in higher income economies enjoying lower prices at the expense of increased prices for lower income markets— thereby causing exclusion of the product from some of the most economically vulnerable markets. Hemel and Ouellette, *supra*, at Sec. II (noting that "while the net winners and losers from a U.S. international exhaustion rule are somewhat ambiguous, it seems clear that consumers in low-income countries do not come out ahead"). Without the territorial rule for patent exhaustion, patentees would need to select a worldwide price since otherwise importation of low-income market goods to middle and high income markets would cause a convergence of global prices at the lowest available price point. *Id.* In short, reversing the Federal Circuit's holding in *Lexmark* effectively would result in a mass redistribution of wealth from less developed markets to higher income markets. *Id.*

3. A Rule of Territorial Exhaustion Allows Patentees to Meet the Needs of Underdeveloped Markets.

By upholding the rule of *Jazz Photo*, underdeveloped markets will continue to benefit in two important ways: (1) products intended for the

lower-priced market will stay in the lower-priced market and be available for those consumers to purchase; and (2) OEMs will be encouraged to continue offering lower-priced goods in less-developed countries because they will be able to recoup investments and prevent a rampant gray market. Territorial exhaustion provides patentees with a way to combat the importation of goods priced and intended for a foreign market so that they can continue to sell products at lower prices in these needy countries without the supply being diverted into the United States.

Many patented products, including life-saving drugs, medical devices and life-changing technology are sold at lower prices in poorer countries to the benefit of people in those countries who could not otherwise afford them. Left unchecked, however, the gray market takes lower-cost articles from less-developed countries and diverts them for resale in higher priced markets. Atik & Lidgard, *supra*, at 1060. When products are diverted from lower-priced markets to be sold in the U.S., those who need the low prices to afford a patented drug or an innovative technology have no opportunity to buy it before it is swept back into the United States gray market. Simply put, gray markets and parallel imports transfer benefits from consumers in developing countries to importers. *See* Hillary A. Kremen, *Caveat Venditor: International Application of the First Sale Doctrine*, 23 Syracuse J. Int'l L. & Com. 161, 163 (1997).

Furthermore, OEMs can afford to offer lower prices in less-developed markets only because higher

prices that OEMs receive in wealthier markets can offset the significant costs of research and development, marketing, and production so that the product remains profitable. Companies that sell patented products in underdeveloped countries need to be able to amortize their investment through sales at higher prices in developed markets where the higher cost can be borne by wealthier consumers. *See* Atik and Lidgar, *supra*, at 1047-48 ("[t]he willingness of the pharmaceutical industry to distribute drugs at low cost...depends on its confidence that these drugs will not filter back into high priced markets"). Without the ability to price differentiate their products for international markets, OEMs are impeded from competing internationally and may be discouraged from entering developing markets with accessible prices. Vockrodt, *Patent Exhaustion and Foreign First Sales*, 33 AIPLA Q.J. at 200. Making patented inventions available and accessible in less-developed countries, while still allowing patentees to bring these inventions to market and stay profitable, is an important policy justification that supports the *Jazz Photo* rule of territorial exhaustion.

These policy considerations that support different prices in different markets for patented articles are different than those considered (and rejected) by the Supreme Court in the copyright context. *See Kirtsaeng*, 133 S. Ct. at 1371. As discussed above, the nature of articles protected by patent law (pharmaceuticals, new technologies, medical devices) are very different than the types of works protected by copyright law. Specifically, patented items are novel and useful inventions that

can benefit societal health and welfare. Because of this, the ability to engage in price differentiation and global segmentation for patented articles is justified by different policy goals, including improving public welfare by encouraging and protecting innovation.

Indeed, life-saving or life-changing inventions can make a huge impact on the economy and public welfare. However, these inventions also require substantial investment to bring to market and are priced so that those costs can be recovered. By keeping in place a rule of patent law that allows and encourages market segmentation, patentees can lower the price in less-developed markets so that needy consumers there have access to these new inventions and patentees can still recover the return on their investment by charging higher prices in wealthier markets. Such beneficial new inventions might not be available to consumers in a less-developed market without price differentiation or market segmentation. The policy justifications for supporting increased accessibility and further development of patented articles for the benefit of the public are stronger in the context of patented new technologies than in the context of copyrighted textbooks.

4. A Rule of Territorial Exhaustion Aids in Combating Unauthorized Gray Markets and Counterfeiting while Supporting Consumer Protection.

Intellectual property rights, particularly patent rights, are important tools in OEMs' ongoing battle against counterfeiting and unauthorized

parallel imports. OEMs must be able to continue to rely upon their patent rights as an integral tool in preventing unauthorized gray market goods from entering the U.S. market. Under the existing rule of territorial exhaustion, the gray market is checked by rights of patent owners. *See* Shubba Gosh, *Pills, Patents, and Power; State Creation of Gray Markets As a Limited on Patent Rights*, 14 Fla. J. Int'l L. 217, 222 (2002) ("Gray markets in the United States are extremely rare when patent law comes into play"). If this rule is overruled, the gray market for goods is likely to increase because unauthorized importers of parallel goods will no longer face the risk of a patent infringement suit. *Id.* This increased and uncontrolled gray market will lead to negative consequences contrary to public policy, including (1) harm to the consuming public; (2) damage to the rights and interest of OEMs; and (3) threats to the health of the economy and the safety of the public. *See* Sugden, *supra*, at 5-6 (discussing the "host of significant risks" associated with gray market goods).

Consumers of unauthorized gray market goods will suffer because gray market goods are often different from authorized imports or domestic goods in material ways. *See* Alvin G. Galstain, Comment, *Protecting Against the Gray Market in the New Economy*, 22 Loy. L.A. Int'l & Comp. L. 507, 510 (2000). For example, foreign goods may be altered to comply with different health and safety codes for varying markets, or they may be designed or marketed differently to account for regional or cultural differences or languages. *Id.* While consumers may initially be attracted by the lower

prices of gray market goods, that attraction usually turns to disappointment -- or worse -- when the product fails to function properly, fails to meet local health or safety requirements or when consumers are unable to have the unauthorized product serviced or repaired by the OEM or an authorized reseller. *Id.*; KPMG LLP, *Effective Channel Management is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line; KPMG Gray Market Study Update*, 3 (2008) ("*Gray Market Study*"), *available at* www.agmaglobal.org/cms/uploads/whitePapers/7-10-08KPMGWhitePaperGrayMarketStudy.pdf (purchasers of gray market technology products risk data loss and business interruption).

Moreover, consumers may be harmed by the importation of unauthorized gray market goods that unbundle the sale of the physical product from the customer services associated with the same that customers expect. Often the retail price of goods, particularly those sold by OEMs, reflects not only the cost to manufacture the physical good but also the associated support services the manufacturer provides, such as technical and consumer support as well as warranty protection. These services protect consumers. When third-parties import gray market goods without authorization, these support services are often voided in the unauthorized territory. *See* Mark Weber Tobias, *Buying Gray Market Cameras: What You Need to Know*, Forbes, October 29, 2014 http://www.forbes.com/sites/marcwebertobias/2014/10/29/buying-gray-market-cameras-what-you-need-to-know/#76517b303c99 (noting that customers may be

surprised to learn that their "discounted" grey market goods often are not covered by a warranty).

Accordingly, consumers may decide to purchase a seemingly "authentic" gray market good believing they will be able to benefit from the customer service and warranties of the manufacturer but are unaware that the cheaper price of the unauthorized import and gray market actually unbundles the sale of the product from the services that consumers expect. This harms not only the manufacturer whose reputation may be damaged by a disappointed consumer who finds that warranties or support are not available, but also consumers who had no reason to believe that their purchase of a good imported from abroad meant they would be cut off from the consumer services that the manufacturer had built into the pricing model for the U.S. product. In addition, this allows third-parties who have contributed nothing to innovation to "free ride" from the manufacturer's hard earned goodwill by exploiting consumer trust in the manufacturer's reputation for their own profit.

Gray markets also harm OEMs. When OEMs are cut out of the distribution channel through the sale and re-importation of foreign goods, quality control over these goods is virtually impossible. *Gray Market Study* at 7 ("OEMs generally have no visibility into unauthorized sales and cannot ensure that products sold are new, authentic, undamaged goods and are properly installed and supported."). This loss of control over quality and safety issues, as well as the disappointed consumers described above,

inevitably leads to erosion of the OEMs' goodwill. Galstain, *supra*, 510-11.

Furthermore, gray markets unfairly drive down the prices OEMs and authorized resellers can charge to stay competitive in their own market. *See* KPMG, *Gray Market Study* at 9 (reporting poll results that say many gray market prices are more than 25 percent lower than average authorized distribution channel prices). With an uncontrolled gray market, OEMs and authorized resellers often must price their U.S. products lower to compete with the unauthorized foreign goods sold in the U.S. at low prices by gray market dealers. Sugden, *supra*, at 41. Because unauthorized importers do not have research and development costs or the expenses of marketing, customer support, and product quality control that OEMs have (and often require of their authorized resellers), the gray market dealers can price their imported products much lower and still turn a profit. This allows gray market dealers to get a "free ride" at the expense of the OEMs' reputation and goodwill and in competition with OEMs and authorized resellers.

Perhaps the most dangerous result of an unchecked gray market is a corresponding increase in counterfeit or "black market" goods and a decrease in the effectiveness of anti-counterfeiting efforts and laws. Sugden, *supra*, at 6 ("[o]ne of the most significant consequences of an unchecked gray market is the commingling of gray and black market products"). The risks to public health and safety posed by the counterfeit market are well-documented and pervasive. *See* United Nations Office on

Drug and Crime, *Counterfeit Products* (2010), *available at* https://www.unodc.org/documents/data-and-analysis/tocta/8.Counterfeit_products.pdf (reporting on the link between counterfeiting and serious offenses such as drug trafficking, smuggling, money laundering, tax evasion, corruption). Gray market goods are often mixed with and sold through the same channel as black market goods, making it difficult to distinguish the two. Sugden, *supra*, at 53. As a result, it is easier for counterfeiters to import illegal goods into the United States and more difficult for OEMs and law enforcement to determine whether goods coming into or being offered for sale in the U.S. are gray market goods or counterfeits. *See* Addie T. Katz, *The Merging of Black and Gray: International Copyright Infringement in the Post-Kirtsaeng Era*, 43 Hofstra L. Rev. 291, 293 (2014); Sugden, *supra*, at 52; *see also*, *Zino Davidoff S.A. v. CVS Corp.*, 571 F.3d 238 (2d Cir. 2009) (prominent retailer selling both gray market and counterfeit versions).

If the existing rule of territorial exhaustion is overturned, the U.S. market for gray and counterfeit goods will increase, with serious repercussions to health, safety and public welfare. Good public policy requires a legal framework that prevents unauthorized importation of patented articles and supports efforts to keep potentially dangerous knockoffs and unauthorized foreign imports from entering the market.

CONCLUSION

Both rights holders and consumers benefit from a rule of patent exhaustion that (1) allows for valid use-restrictions and (2) respects the territorial boundaries of U.S. patent law. The ISC urges this Court to affirm the decision below and to maintain the stable and long-standing practices of patent holders and downstream users that contribute to a vibrant and healthy U.S. economy.

Respectfully submitted,

/s/ Mark Schonfeld
Mark Schonfeld
Sara Beccia
BURNS & LEVINSON LLP
125 Summer Street
Boston, MA 02110
Telephone: 617-345-3000
Facsimile: 617-345-3299
Counsel for Imaging Supplies Coalition

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ECORD
AND
BRIEFS

No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF INTEL CORP., DELL INC., AND VIZIO INC. AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

Matthew J. Hult
INTEL CORPORATION
2200 Mission College Blvd.
Santa Clara, CA 95054

Rachel Wainer Apter
Elizabeth R. Moulton
Paul D. Meyer
ORRICK, HERRINGTON & SUTCLIFFE LLP
51 West 52nd Street
New York, NY 10019

Mark S. Davies
Counsel of Record
ORRICK, HERRINGTON & SUTCLIFFE LLP
1152 15th Street, N.W.
Washington, DC 20005
(202) 339-8400
mark.davies@orrick.com

Counsel for Amici Curiae

QUESTIONS PRESENTED

1. Whether a sale that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

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INTEREST OF *AMICI*[1]

Amici are leading members of the U.S. high-technology industry. Intel Corp. is a designer, manufacturer, and seller of microprocessors, communication chips, flash memory products, solid-state drives, and other high-technology products and services. Dell Inc. is a manufacturer of personal computers, data storage solutions, and other technology products. VIZIO, Inc. is a consumer electronics company whose products include televisions, displays, and audio equipment. Together, *amici* own more than 35,000 patents.

Amici manage and participate in complex global supply and distribution chains for high-tech products—both at the beginning and end of the global supply chains. For example, Intel makes highly complex microprocessor chips that are at the center of a wide range of computing products. "[E]ach Intel microprocessor and chipset practices thousands of individual patents," *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 635 (2008), some of which Intel owns and some of which Intel licenses from other companies. Intel then sells its microprocessor chips to other companies, like Dell, that combine them with other patented components—including many supplied by other third parties from outside the United States—into their complex technological products. VIZIO also

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[1] The parties have consented to the filing of this *amicus* brief. No counsel for a party authored the brief in whole or in part. No party, counsel for a party, or any person other than *amici* and their counsel made a monetary contribution intended to fund the preparation or submission of this brief.

relies on foreign manufacturers to procure components and assemble VIZIO's products.

Amici submit this brief out of deep concern for the practical consequences of the decision below. As owners of patents and as manufacturers who use patented components in their products, *amici* rely on the principle that one authorized sale of a patented item exhausts the patent holders patent rights in that item. This principle translates into fair marketplaces for innovation and technology, ultimately promoting progress and yielding benefits to consumers. Without patent exhaustion, a patent holder could choose to sell its patented component for use in a high-tech product, receive its reward in the form of the freely negotiated contract price, and then attempt to extract second, third and fourth royalties all the way down the supply chain. That could impact the marketplace for all sorts of products, increasing consumer costs and undermining the progress the patent system was designed to incent.

INTRODUCTION AND SUMMARY OF ARGUMENT

"The declared purpose of the patent law is to promote the progress of science and the useful arts by granting to the inventor a limited monopoly, the exercise of which will enable him to secure the financial rewards for his invention." *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942). "[W]hen the patentee has received his reward for the use of his invention by the sale of the article," that purpose "is realized [and] the patent law affords no basis for restraining the use and enjoyment of the thing sold." *Id.*

at 251; *see also Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) ("[T]o control the resale or other disposition of a chattel once sold is ... 'against Trade and Traffi[c], and bargaining and contracting'" (quoting 1 E. Coke, Institutes of the Laws of England § 360, p. 223 (1628))).

The Federal Circuit's two rulings under review here—originally announced in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), and *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992)—create two unwarranted exceptions to that rule. Although the Federal Circuit denied its decision would cause "substantial" or "wide-spread" problems to the global marketplace, Pet. App. 60a, 98a, 100a, *amici* submit this brief to help illustrate the real-world problems with the Federal Circuit's approach.

I.A. One hundred and sixty five years of this Court's precedent supports the rule that "the initial authorized sale of a patented item terminates all patent rights to that item." *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013) (quoting *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008)); *see also Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852). *Jazz Photo* created an exception for authorized sales that take place outside the United States. The en banc majority reaffirmed that exception, purporting to rely on *Boesch v. Graff*, 133 U.S. 697 (1890). But the Federal Circuit's understanding of *Boesch* was flawed. In *Boesch*, there was no exhaustion because there was no sale authorized by the U.S. patent holder.

B. *Jazz Photo* has imposed unwarranted transaction costs on high technology. Companies like *amici* who make devices that each implicate thousands of patents must secure licenses to protect themselves and their customers from claims of patent infringement, even for products that were purchased abroad in sales authorized by the U.S. patent holder.

Lexmark argues that requiring downstream manufacturers to negotiate second, third and fourth licenses, even after the patent holder has received her patent reward, is how the system *should* work. *See* Opp. 32. But a rule that requires duplicative licensing imposes massive transaction costs with no corresponding benefit, aside from wealth to the patentee. The total cost for licensing patents in a single high-tech product could be in the tens, if not hundreds, of millions of dollars. And even express licenses have not stopped patent assertion entities ("PAEs") from filing suit against downstream purchasers. Moreover, under *Jazz Photo*, licensing, and its attendant transaction costs, must be duplicated at each level of the supply chain. A downstream purchaser cannot be assured that its supplier has secured exhaustion without reviewing the license between the supplier and the patent holder—but patent licenses are generally confidential and unavailable to the downstream purchaser. When a downstream purchaser therefore must negotiate directly with a patent holder, the downstream purchaser is at a serious disadvantage, both because it may already be locked into using the patented technology, and because it lacks the technical information and expertise to evaluate whether the component may practice the patent or to calculate the value of the technology to its product.

C. The Solicitor General correctly rejects *Jazz Photo's* rule that international sales authorized by the U.S. patentee can never exhaust U.S. patent rights. But to support its rule of presumptive international exhaustion, the government relies on two bilateral free trade agreements with Australia and Morocco. Those two agreements do not establish U.S. law or policy, and nothing in either requires signatories to provide patent holders with a remedy that sounds in patent law instead of contract law. And a rule of international exhaustion would still allow patent holders to prevent the importation of products through contract law. Relying on contract law would limit legal liability to the parties to the contract, and those in privity with them, without imposing a servitude on the product itself. Moreover, the government's approach does not solve the practical problems *amici* face under *Jazz Photo*.

II.A. As the government correctly argues, this Court should also reject the Federal Circuit's embrace of *Mallickrodt's* holding that post-sale restrictions may be enforced through patent law. U.S. Cert. Br. 6-14. This Court has consistently held that the "sale of [an article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Univis Lens Co.*, 316 U.S. at 250 (1942). The en banc majority wanted to avoid creating a "distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a. But there is no such distinction. The rule is the same for non-practicing entities and practicing entities alike: Once there

has been a first sale authorized by the U.S. patent holder, the patent holder may not exercise any further control over the use or resale of the patented article through the patent law.

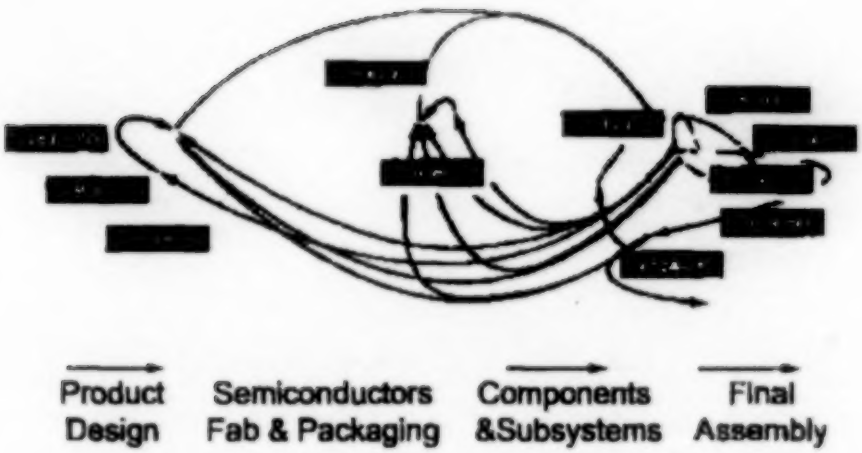
B. The Federal Circuit's contrary rule could permit companies to sell their products as "single use only," and sue anyone who resells or reuses them for patent infringement. Additionally, it could allow companies to use patent infringement suits to prevent purchasers from repairing broken machines.

The Federal Circuit denied that its holding would cause such "wide-spread problems" because "*Mallinckrodt* has been the governing case law since 1992." Pet. App. 60a. But *Mallinckrodt* has not caused greater chaos to date for the same reason it should be rejected: It is so far outside of this Court's existing exhaustion precedent that some patent holders have been hesitant to strongly rely on it. Affirming the Federal Circuit's en banc holding below could unleash a range of post-sale restrictions that fundamentally reshape the patent law landscape and injure consumers and businesses alike. This Court should reverse.

ARGUMENT

I. The Court Should Reject The Federal Circuit's Holding That An Authorized Foreign Sale Does Not Exhaust U.S. Patent Rights.

Here is an image of a typical international supply chain for a high-tech product:



As the image shows, a product may be designed in the United States, assembled in Singapore from parts made in Costa Rica, Israel, and China, and then shipped to the United States for sale.[2] Intel's multi-tier supply chain, for example, comprises more than 16,000 suppliers in over 100 countries. Likewise, more than 750 companies supply components from over 30 countries that are incorporated in iPhones and iPads. *See* Ian Barker, *The Global Supply Chain Behind the iPhone 6*, betanews (Sept. 23, 2014), http://tinyurl.com/jrsxpxq. Dell relies on suppliers across six continents. *See* http://tinyurl.com/jqx8rz5 (map of Dell suppliers). And VIZIO relies on foreign manufacturers to procure components and assemble VIZIO's complex products.

The en banc Federal Circuit's decision, reaffirming the rule announced in *Jazz Photo*, threatens this global market. Under the Federal

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[2] *See* Mark Zetter, *Economic Drivers, Challenges Creating Regional Electronics Industry*, Venture Outsource, http://tinyurl.com/zokrprg (last visited Jan. 20, 2017).

Circuit's ruling, even if a U.S. patent holder authorizes a sale of her patented product abroad and receives her patent reward, she can still sue downstream purchasers for patent infringement. That holding is contrary to this Court's established precedent and, if affirmed, would damage the global high-tech industry.

A. For purposes of U.S. patent exhaustion, what matters is that an authorized sale has taken place, not where it occurs.

In determining the scope of patent exhaustion, what matters is that an authorized sale has taken place, not where. For example, in *Betts v. Willmott*, Lord Hatherley held that "inasmuch as [the seller] has the right of vending the goods in *France* or *Belgium* or *England*, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them wherever the purchaser pleases." [1871] 6 L.R. 239, 245 (Ch. App.) (Eng.). Similarly, in *Holiday v. Mattheson*, 24 F. 185, 186 (C.C.S.D.N.Y. 1885), the court held that the purchaser "acquire[s] the right of unrestricted ownership in the article he buys as against the vendor" even if the article is purchased abroad. Much more recently, this Court held that the "'first sale' doctrine applies to copies of a copyrighted work lawfully made abroad." *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1355-56 (2013).

The Federal Circuit purported to take a different rule from *Boesch v. Graff*, 133 U.S. 697 (1890), *see* Pet. App. 83a-84a. The Federal Circuit relied on *Boesch* to hold "that there is no legal rule that U.S. rights are waived ... simply by virtue of a foreign sale, either

made or authorized by a U.S. patentee." Pet. App. 64a. But the Federal Circuit's understanding of *Boesch* was flawed. In *Boesch*, there was *no* foreign sale "either made or authorized by a U.S. patentee." *Id.* The patentee patented an improvement in lamp burners, both in the United States and in Germany. *Boesch*, 133 U.S. at 698-99. Defendants purchased the patented burners in Germany from an individual who did not have authorization to sell them from the U.S. or German patent holder. *Id.* at 699, 701. But because he had "made preparations to manufacture the burners prior to the application for the German patent," his sale was exempted under German law. *Id.* at 701. The Supreme Court held the patent not exhausted because the seller had no authority for the sale from the U.S. patent holder, and thus, "purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights [of] patentees." *Id.* at 703.

Courts have consistently recognized that the crucial fact in *Boesch* was that there was no sale authorized by the U.S. patent holder—in other words, the patent holder never received his one reward. In *Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp.*, for instance, the patent owner manufactured and sold airplanes to the British government in Canada. 266 F. 71, 72-74 (2d Cir. 1920). Defendant purchased the airplanes from the British government in Canada and sold them in the United States. *Id.* at 74. Yet the court held the "full right to use and sell the article in any and every country" had passed to the purchaser, because *"[a]s the plaintiff has already been paid for these aeroplanes the full price it asked,* it is no longer concerned about

... whether the article is kept in Canada, or in Great Britain, or in the United States." *Id.* at 78-79 (emphasis added).[3]

Boesch therefore did not displace or create an exception to the common law rule that an authorized first sale of an article—during which the patent holder receives her patent reward—exhausts U.S. patent rights in that article. *See Kabushiki Kaisha Hattori Seiko v. Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (holding that after a foreign sale by an authorized licensee, "the holder of United States patent rights is barred from preventing resale in the United States or from collecting a royalty when the foreign customer resells the article here").

B. The high-technology industry's experience with *Jazz Photo* demonstrates its many flaws.

1. Because of *Jazz Photo*, companies like *amici*—who make devices that implicate thousands of patents—must secure licenses to protect themselves and their customers from claims of patent infringement, even for products that were purchased abroad in sales authorized by the U.S. patent holder for which the patent holder already collected her reward.

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[3] Contrary to Lexmark's assertion, there was no contractual "global license that covered the United States" (Opp. 22-23) in *Curtiss Aeroplane*—the decision was based on exhaustion. *See* 266 F. at 77.

For example, Intel's 2011 cross-license with NVIDIA specifies that patent exhaustion will occur "in each case, regardless of the jurisdiction in which such Licensed Products were first sold or manufactured, to the same extent that the Patent Rights of the licensor Party in such Licensed Product would be deemed to have been exhausted under United States law if such Licensed Products were first sold in the United States." *See* NVIDIA Corp., Current Report (Form 8-K), at § 3.2(c) (Jan. 10, 2011), http://tinyurl.com/h7ta4hj. Intel negotiated similar terms with RealNetworks in 2012. *See* Patent License Agreement Between RealNetworks, Inc. and Intel Corp., at § 2.1(c) (Jan. 26, 2012), http://tinyurl.com/jucpl6m. And Intel's 2009 cross-license with Advanced Micro Devices includes the right for Intel to sell licensed products, but also "for purposes of clarity, includes the right for Intel's customers, direct and indirect, to use, sell, offer to sell, import and otherwise dispose of all Intel Licensed Products." *See* Patent Cross License Agreement Between Advanced Micro Devices, Inc. and Intel Corp., § 3.1(a) (Nov. 11, 2009), http://tinyurl.com/zp284uu.

Lexmark argues that complicated licenses are how patent exhaustion *should* work. According to Lexmark, *amici* "can protect their supply chains and intellectual property through the contracts, licenses, warranties, indemnification, and insurance that already characterize their cross-border transactions." Opp. 32.

But application of the Federal Circuit's rule would require this kind of licensing to be duplicated at each level of the supply chain. A downstream purchaser

cannot be assured that its upstream supplier has secured exhaustion without reviewing the license between the upstream supplier and the patent holder. But "the terms of patent-licensing agreements ... are generally confidential." John M. Golden, *Principles for Patent Remedies*, 88 Tex. L. Rev. 505, 550 (2010).[4]

Thus, some patent holders attempt to force downstream purchasers to pay again for their own licenses to technology already licensed to their suppliers. *See, e.g.*, Brief of Dell Inc. et al. as *Amici Curiae* in Support of Petitioners, *Quanta*, 553 U.S. 617 (No. 06-937), 2007 WL 3407021, at *17 (patentee sent Dell a "notice letter" regarding technology found in Intel chips used in Dell components suggesting that Dell would need to purchase a license directly from patentee).

Where a downstream purchaser must negotiate directly with an upstream patent holder for a license to a technology that it did not specifically incorporate into its product (its subcomponent or component supplier did), it is at a serious information disadvantage. "Because the downstream purchaser[] did not design

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[4] Some licenses may be disclosed in litigation. But parties routinely—and appropriately—fight to avoid disclosing confidential licensing terms or even the existence of licenses, and licenses that are disclosed in litigation are often designated "Outside Counsel's Eyes Only," so in-house lawyers cannot review them. *See, e.g., In re Elec. Arts, Inc.*, 298 F. App'x. 568 (9th Cir. 2008) (granting writ of mandamus and ordering licensing terms sealed); *MMI, Inc. v. Baja, Inc.*, 743 F. Supp. 2d 1101, 1106 (D. Ariz. 2010) (sealing a licensing agreement because it included information about the "royalty rate [the company] charges its licensees, and the terms and conditions to which [the company] subjects its licensees").

the accused technology, [it does] not possess the technical information to effectively defend against the patents" and must "conduct extensive third party discovery." Samuel F. Ernst, *Patent Exhaustion for the Exhausted Defendant: Should Parties Be Able to Contract Around Exhaustion in Settling Patent Litigation?*, 2014 U. Ill. J.L. Tech. & Pol'y 445, 476 (2014). Even with such discovery, the downstream purchaser may not be able to evaluate the patent or to calculate the value of the technology to its product. Nor can it make a fully informed decision about whether to license the patent because the supplier's information is typically restricted to "outside counsel's eyes only." *See, e.g., Certain Flash Memory Chips & Prods. Containing Same*, Inv. No. 337-TA-735, Order No. 10, 2010 WL 4790336 (USITC Oct. 13, 2010) (denying motion to amend protective order to permit in-house counsel to view confidential business information, noting "general rule that precludes in-house counsel from accessing" such information).

Finally, licensing imposes massive transaction costs. In 2001, the cost of negotiating a patent license was estimated at $50,000 *per licensee per patent*. Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. Rev 1495, 1507 (2001). The total cost for licensing the patents in a single high-tech product could thus be in the tens, if not hundreds, of millions of dollars. Where the patent holder has already received her reward for the sale of a patented component, there is no corresponding benefit to justify this massive cost.

Lexmark insists that negotiating express licenses is no more burdensome than figuring out if the international sale was "authorized." According to Lexmark, even with a rule of international exhaustion, a final product manufacturer would still need to "assure itself that each component was acquired from a seller with authority to transfer any applicable patent rights." Opp. 33. But companies typically publish lists of their authorized sellers. *See, e.g.*, Intel Authorized Distributor List, http://tinyurl.com/jn2s742. For instance, Intel has pioneered a traceable supply chain that "enable[s] end-users to validate where and when every component of a server was manufactured." *See* Intel Transparent Supply Chain, http://tinyurl.com/jb5e46c; *see also* Dell Supply Chain, http://tinyurl.com/jqx8rz5. Thus, finding out whether a distributor was authorized to sell the product is vastly different from negotiating an express license with every single upstream patent holder.

2. Even companies with the sophistication and resources to enter into express licensing agreements have not avoided lawsuits filed by patent assertion entities ("PAEs"). PAEs are increasingly buying up previously licensed patents and seeking second and third patent rewards from downstream purchasers. *See* Mark S. Popofsky & Michael D. Laufert, *Patent Assertion Entities and Antitrust: Operating Company Patent Transfers*, The Antitrust Source, at 1, 3 (Am. Bar Ass'n, 2013); *SanDisk Corp. v. Round Rock Research LLC*, No. 11-CV-5243, 2014 WL 2700583 (N.D. Cal. June 13, 2014) (targeting SanDisk, a downstream purchaser of semiconductor memory devices that were subject to a worldwide license); *Multimedia Patent Tr. v. Apple Inc.*, No. 10-CV-2618, 2012 WL

6863471, at *5 (S.D. Cal. Nov. 9, 2012) (relying on *Jazz Photo* to assert patent infringement against customer of a supplier with a worldwide patent license); *LaserDynamics, Inc. v. Quanta Storage Am., Inc.*, No. 06-CV-348, 2009 WL 3763444, at *1 (E.D. Tex. June 29, 2009), *rev'd on other grounds sub nom. LaserDynamics, Inc. v. Quanta Comput., Inc.*, 694 F.3d 51 (Fed. Cir. 2012) (arguing foreign sales by licensee did not exhaust U.S. patent rights for downstream customer).

PAEs have also already targeted downstream purchasers of high-tech goods originally sold in authorized sales abroad. *Minebea Co. v. Papst*, 374 F. Supp. 2d 202, 216 (D.D.C. 2005) (patentee argued that under *Jazz Photo*, authorized sale abroad did not exhaust patent holder's U.S. patent rights); *Robert Bosch LLC v. Alberee Prods., Inc.*, 171 F. Supp. 3d 283, 288-89 (D. Del. 2016) (same); *STMicroelectronics, Inc. v. SanDisk Corp.*, No. 05-CV-45, 2007 WL 951655, *2-3 (E.D. Tex. Mar. 26, 2007) (same).

By targeting companies like Dell and VIZIO that sell finished products, PAEs try to secure larger payments based on the entire price of the product, rather than the value of the patented technology. *See, e.g., LaserDynamics, Inc.*, 694 F.3d at 60, 65 (patentee's damages expert testified that damages would be $52.1 million if based on entire laptop computer and $10.5 million if based on subcomponent). The Federal Circuit's entire market value rule attempts to address this problem, but many PAEs have circumvented this rule by avoiding explicitly pegging their damages demand to the price of the finished product but conflating the value of the

patented technology in a component with the value from non-patented features in the finished product. *See, e.g., VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1325-29 (Fed. Cir. 2014) (describing expert damages models that did not apportion value of the patented technology: "patentee's obligation to apportion damages only to the patented features does not end with the identification of the smallest salable unit if that unit still contains significant unpatented features"). Even with the entire market value rule, defending against finished product suits is extremely costly. In 2015, the median cost of defending a patent infringement suit brought by a PAE with $1-10 million at risk was $1 million, and the median cost of defending a suit with over $25 million at risk was $3.8 million. Am. Intellectual Prop. Law Ass'n, *Report of the Economic Survey*, at 38 (2015).

3. The Federal Circuit denied that "substantial problems have arisen with the clear rule of *Jazz Photo*, which has been in place since 2001" and asserted that "[o]verturning *Jazz Photo*" is what "would plausibly cause significant disruption of existing practices." Pet. App. 98a, 100a; *see also* Opp. 31 ("The sirens sounded by *amici* ... fail to resonate where the court merely affirmed existing precedent."). But the Federal Circuit failed to acknowledge the problems discussed above (at 10-16).

Moreover, *Jazz Photo* has not been "the clear rule" for many years. Many considered it wrong when decided. *See, e.g.*, John A. Rothchild, *Exhausting Extraterritoriality*, 51 Santa Clara L. Rev. 1187, 1196-1216 (2011) (disputing the Federal Circuit's reasoning in *Jazz Photo* and collecting contrary precedent). Then,

following *Quanta*, 553 U.S. 617, which involved some foreign sales, at least one court held that *Quanta* had abrogated *Jazz Photo*. *See LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009) ("The Court therefore concludes that *Quanta's* holding—that exhaustion is triggered by the authorized sale of an article that substantially embodies a patent—applies to authorized foreign sales as well as authorized sales in the United States."); Pet. Br. 48-49. The Federal Circuit rejected that view in *Ninestar Tech. Co. v. Int'l Trade Comm'n*, 667 F.3d 1373, 1378 (Fed. Cir. 2012), but *Jazz Photo* was quickly called into question again by *Kirtsaeng*. *See SanDisk Corp.*, 2014 WL 2700583, at *4 (noting that "*Kirtsaeng* implicitly suggests" that *Jazz Photo* was wrong).

Contrary to the Federal Circuit's assertion, Pet. App. 74a-75a, 99a, the practical considerations animating *Kirtsaeng* apply with equal or greater force in the patent context. Just as this Court warned in *Kirtsaeng*, the rule of *Jazz Photo* invites accidental infringement by consumers and companies. *See* 133 S. Ct. at 1364-67 (giving examples of possible inadvertent copyright infringement). As in *Kirtsaeng*, a consumer who purchases a phone,[5] a new pair of golf

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[5] A generic smartphone assembled from various high-tech components could practice an estimated 250,000 patents. *See* RPX Corp., Registration Statement (Form S-1), at 59 (Sept. 2, 2011), http://tinyurl.com/gnlzbr9.

shoes,[6] or even a package of diapers[7] while on a trip abroad could find herself liable for patent infringement upon her return to the United States. And U.S. residents spent an estimated $119 billion overseas in 2008. Michael Armah and Teresita Teensma, *Estimates of Categories of Personal Consumption Expenditures Adjusted for Net Foreign Travel Spending*, Bureau Of Economic Analysis, U.S. Department of Commerce 15 (Apr. 2012), http://tinyurl.com/z2umlrr.

At least in *Kirtsaeng*, the possible suits against consumers were hypothetical. *See* 133 S. Ct. at 1366-67. Not so in the patent context, where there already exists "a class of patentees that overwhelmingly acquire old, extremely weak patents and assert them against the numerous, unsophisticated purchasers (rather than manufacturers) of allegedly infringing products in suits that typically settle for less than defendants' anticipated litigation costs." Brian J. Love & James C. Yoon, *Expanding Patent Law's Customer Suit Exception*, 93 B.U. L. Rev. 1605, 1609-10 (2013); *see, e.g.*, *Vt. v. MPHJ Tech. Invs., LLC*, 803 F.3d 635, 639 (Fed. Cir. 2015), *cert denied* 136 S. Ct. 1658

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[6] The Patent Office has issued 348 patents in classification 36/127 ("Athletic shoe or attachment therefor", "for golf"), USPTO Patent Full-Text and Image Database, http://tinyurl.com/jpdurnu (last visited Jan. 20, 2017)

[7] The Patent Office has issued 1,114 patents in classification 604/358 ("Absorbent pad for external or internal application and supports therefor (*e.g.*, catamenial devices, diapers, etc.)"), USPTO Patent Full-Text and Image Database, http://tinyurl.com/orwy26y (last visited Jan. 20, 2017).

(2016); *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11 C 9308, 2013 WL 5593609, at *1 (N.D. Ill. Oct. 3, 2013).

This Court should hold that foreign sales authorized by U.S. patent holders exhaust U.S. patent rights. Otherwise, transaction costs at each level of the supply chain will increase, and will be passed on to consumers, without a corresponding public benefit. Ernst, *supra*, at 472.[8]

C. The Solicitor General's presumptive international exhaustion rule would not solve the problems with *Jazz Photo*.

The Solicitor General recognized that the Federal Circuit erred "in reaffirming its holding in [*Jazz Photo*] that foreign sales *never* exhaust U.S. patent rights." U.S. Cert. Br. 6. However, the government asserted that the Court should hold that an authorized foreign sale *presumptively* exhausts U.S. patent rights, but a patentee may nonetheless reserve her "U.S. patent rights ... expressly." *Id.*

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[8] Lexmark asserts that "[e]ffectively requiring patentees to price the value of U.S. patent rights into every foreign sale" would be especially problematic "where lifesaving drugs ... are at stake." Opp. 30, 32. But concerns about market segmentation of pharmaceuticals are "a red herring because [of the] unique features of pharmaceuticals." Ariel Katz, *The First Sale Doctrine and the Economics of Post-Sale Restraints*, 2014 BYU L. Rev. 55, 79 (2014). Pharmaceutical imports and exports are heavily regulated, so a rule of international exhaustion is, contrary to the en banc majority's assertion (at Pet. App. 101a), unlikely to undermine a pharmaceutical company's ability to price discriminate across countries. *See also* SanDisk Cert. Br. 15 n.7.

This rule lacks a principled legal basis and would possibly cause more confusion than the Federal Circuit's approach. The government's proposed approach would tell businesses and consumers that patent rights are sometimes exhausted in foreign sales, and sometimes not, leaving the businesses and consumers to figure out whether sufficient express reservations had been made. Further, a presumptive exhaustion rule could encourage patent holders to reserve their rights as discreetly as possible and then lie in wait and sue for infringement once a finished product hits the United States. It could also create a cottage industry of litigation around when a reservation is sufficiently express.

The government attempts to justify its approach by pointing to two bilateral free trade agreements with Australia and Morocco from 2004. U.S. Cert. Br. 18-20. Those two agreements specify that the parties shall preserve "the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from a patented process" notwithstanding a foreign sale of that product, "at least where the patentee has placed restrictions on importation by contract or other means." United States-Australia Free Trade Agreement, Aus.-U.S., May 18, 2004, Art. 17.9.4, KAV 6422; United States-Morocco Free Trade Agreement, Morocco-U.S., June 15, 2004, Art. 15.9.4 & n.10, 44 I.L.M. 544 (using similar language).

However, those two bilateral agreements do not set U.S. law or policy, and nothing in either agreement requires the signatories to provide patent holders with a remedy in *patent law* as opposed to *contract*

law. A rule of international exhaustion would still allow patent holders to prohibit the importation of products using contract law. For example, a patent holder could enter into a contract with a purchaser overseas that prevented the purchaser from importing the patented product into the United States. If the purchaser went ahead and imported the product into the United States anyway, the patent holder could sue for breach of contract. *See, e.g., Quanta*, 553 U.S. at 637 n.7 (distinguishing patent rights from contract rights that may be separately asserted); *Bloomer v. McQuewan*, 55 U.S. 539, 549-50 (1852) (observing that once a product "passes to the hands of the purchaser, it is no longer ... under the protection of" federal patent laws but remains subject to state laws that govern "[c]ontracts in relation to it").

Relying on contract law would limit legal liability to the parties to the contract, and those in privity with them, without imposing a servitude on the product itself. In other words, patent holders would be required to sue those with whom they contract, rather than downstream purchasers. And the remedies available for breach of contract are generally limited to compensatory damages, *see* U.C.C. § 1-106 (describing compensatory damages for contract actions), whereas remedies for patent infringement include injunctive relief and treble damages, *see* 35 U.S.C. §§ 283, 284.[9]

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[9] A contemporaneous 2003 bilateral free trade agreement between the United States and Singapore cited by the en banc majority, *see* Pet. App. 88a, illustrates this point. *See* United

II. The Court Should Reject The Federal Circuit's Holding That Post-Sale Restrictions Are Enforceable Through Patent Law After An Authorized Sale.

The Federal Circuit's decision disregarded a second necessary consequence of the Court's 165-year-old rule that after an inventor chooses to "lawfully sell" a patented machine, the "machine passes to the hands of the purchaser" and "passes outside" of patent law. *Bloomer*, 55 U.S. at 549. Namely, "the initial authorized sale of a patented item terminates all patent rights to that item," *Quanta*, 553 U.S. at 625, and "confers on the purchaser, or any subsequent owner, 'the right to use [or] sell' the thing as he sees fit," *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013) (quoting *Univis Lens Co.*, 316 U.S. at 249-50). In its brief, the United States therefore urged this Court to correct "the Federal Circuit's erroneous limitation on

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States-Singapore Free Trade Agreement, Sing.-U.S., May 6, 2003, Art. 16.7.2, 42 I.L.M. 1026 (2003). Article 16.7.2 of the agreement provides that "[e]ach Party shall provide a cause of action to prevent or redress the procurement of a patented pharmaceutical product, without the authorization of the patent owner, by a party who knows or has reason to know that such product is or *has been distributed in breach of a contract* between the right holder and a licensee, regardless of whether such breach occurs in or outside its territory." *Id.* (emphasis added). The agreement further states that "[a] Party may limit such cause of action to cases where the product has been sold or distributed only outside the Party's territory before its procurement inside the Party's territory." *Id.* at n.16-10. That language is consistent with a rule of automatic international exhaustion—an authorized first sale abroad removes a product from the reach of patent law—but still allows for other remedies to redress unauthorized importation, such as breach of contract and tort.

the scope of patent exhaustion following an authorized first sale in the United States." U.S. Cert. Br. 15.

A. Exhaustion applies to patentees who license others to manufacture products just as it applies to patentees who manufacture their own products.

The en banc majority's stated reason for going against more than a century of Supreme Court precedent was to avoid creating a "distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product." Pet. App. 26a; *see also* Pet. App. 30a, 32a, 34a, 37a, 41a, 45a, 49a (discussing purported patentee-sale/licensee-sale distinction). Lexmark has similarly argued that the "court of appeals properly refused to insert this novel and arbitrary distinction ... into the controlling text." Opp. 1.

As the government correctly acknowledged, however, there is no such distinction. U.S. Cert. Br. 11-14. The rule is the same for non-practicing entities and practicing entities alike: Once there has been a first sale authorized by the U.S. patent holder, the patent holder may not restrain the use or resale of the patented article through the patent law. *See, e.g.*, *Boston Store v. Am. Graphophone Co.*, 246 U.S. 8, 25 (1918) ("[O]ne who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied.").

The foundation of the Federal Circuit's error was its mistaken belief that had "Lexmark ... granted another firm a nonexclusive license to make and sell Return Program cartridges," rather than selling them with the post-sale restrictions itself, "[i]t is undisputed and clear under ... the 1938 decision in *General Talking Pictures* ... that Lexmark would not have exhausted its patent rights in those cartridges, upon the manufacturing licensee's sale (the first sale), if a buyer with knowledge of the restrictions resold or reused them in violation of the restrictions." Pet. App. 26a; *see also* Opp. at 19 ("[P]atentees can achieve the same results through licenses.").

That is wrong. An authorized sale by a licensee, made within the scope of a valid patent license, exhausts the patent holder's patent rights, and the patent holder may not then use the patent law to enforce a post-sale restriction against a purchaser. Thus, had Lexmark granted another company a license to make and sell its patented ink cartridges but required the company to affix a sticker that said "single use only," and the other company had complied, Lexmark could not bring a patent infringement suit against a purchaser who refilled and re-used the cartridges despite the sticker. Although Lexmark or its licensee may have a breach of contract action against the purchaser who violated the terms of the sticker, Lexmark's *patent rights* would have been exhausted because the sale by the licensee to the purchaser was authorized by Lexmark. *See, e.g.*, *United States v. Gen. Elec. Co.*, 272 U.S. 476, 489-90 (1926); Mark R. Patterson, *Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing*, 49 Wm. & Mary L. Rev. 157, 164-65 (2007) ("manufacturing licensees

in effect stand in the shoes of the patentee, and imposing use restrictions on them can reasonably be treated as economically equivalent to individual decisions by the patentee itself").

Despite the Federal Circuit's confusion, *General Talking Pictures* is not to the contrary. There, the patent holder granted a nonexclusive license to American Transformer Company to manufacture and sell its patented amplifiers only for individual home use, not for commercial use. *Gen. Talking Pictures v. W. Elec. Co.*, 304 U.S. 175, 179-80 (1938). Despite the limited license, American Transformer Company knowingly violated the licensing agreement and sold amplifiers to a movie company (i.e., for commercial use). *Id.* at 180. The Court held that the sales "were outside the scope of [the] license and not under the patent" and thus constituted patent infringement. *Id.* at 180-82. On rehearing, the Court again held that when the terms of a restricted license are violated by the licensee, a sale "outside the scope of the license ... is precisely the same as if no license whatsoever had been granted." 305 U.S. 124, 127 (1939).

The Court specifically noted that it had "no occasion to consider" what the outcome would have been had there been an authorized sale under the license accompanied by a "notice which purports to restrict the use of [the] articles lawfully sold." *Id.* at 127 (internal quotation mark omitted). It did not hold that where there has been an authorized sale by a licensee, patent rights are still not exhausted, and the patent owner may still use the patent law to enforce post-sale restrictions against downstream users. Rather, it

held that without an authorized sale, there is no exhaustion.

General Talking Pictures is thus a case where the patent owner's patent rights were not exhausted *because there was no authorized sale.* The rule is the same regardless of who makes the sale: The first authorized sale of a patented article exhausts the patent holder's patent rights.

This Court confirmed that understanding again in *Quanta*, emphasizing that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta*, 553 U.S. at 625. As the Court elaborated, "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638. Further, the Court specifically noted that it had long ago rejected the ability of patentees to impose "postsale restrictions on the use of a patented article." *Id.* at 625-26.

At bottom, as *Quanta* recognized, "the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is 'to promote the progress of science and useful arts.'" *Id.* at 626 (quoting *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917) (quoting U.S. Const., art. I, § 8, cl. 8)). Patent exhaustion embodies that purpose by limiting a patentee to *one* royalty.

B. The Federal Circuit's endorsement of *Mallinckrodt* could allow patent holders to end secondary markets in patented goods.

1. It might be bad for business, but under the Federal Circuit's rule, any patentee could sell her product as "single use only," and then attempt to sue a purchaser for patent infringement if she resells or reuses it. As a high-tech example, videogame companies could sell their games as "single use only," and sue anyone who resold them, in an attempt to shut down the market for secondhand videogames. And there should be no doubt that PAEs are willing to go after individual customers for patent infringement. *Supra* at 14-16 (discussing customer suits).

Appliance manufacturers could similarly try to prevent purchasers from repairing or modifying their washing machines or dishwashers simply by labeling them "as-is," or "without modification." *See* Richard H. Stern, *Post-Sale Patent Restrictions After Mallinckrodt—An Idea in Search of Definition*, 5 Alb. L.J. Sci. & Tech 1, 14-15 (1994) (explaining how *Mallinckrodt* provides "a detour" around repair and modification doctrines); *see, e.g., Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961) (holding "[m]ere replacement of individual unpatented parts ... is no more than the lawful right of the owner to repair his property" and is not infringing). The appliance repair and maintenance industry was worth $2.4 billion in 2010. *See* U.S. Census Bureau, Service Annual Survey 2010, at 203, 441 (Feb. 2012), http://tinyurl.com/hoxem33.

Lexmark asserts any such restrictions would be accompanied by "reduced prices [that] reflect the value of what is conveyed," and there is thus no potential for a "double recover[y]." Opp. 19. But that is a matter of grace—it is not required by the Federal Circuit's holding. The holding permits patent holders to charge whatever they want for products labeled single use, and then sue anyone who attempts to reuse or resell them for patent infringement. That is contrary to the long-established and oft-repeated rule that "the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent." *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 666 (1895).

2. The Federal Circuit denied that its holding would cause such "wide-spread problems" because "*Mallinckrodt* has been the governing case law since 1992." Pet. App. 60a. Similarly, Lexmark has asserted that "*amici's* sweeping claims about the imminent demise of U.S. commerce ... ring hollow" because they "have not come to pass in the years since" *Mallinckrodt* was decided. Opp. 2.

But just as the Federal Circuit missed the uncertainty and unfairness *Jazz Photo* has left in the high-technology community, it misunderstood why *Mallinckrodt* has not caused greater chaos to date. Almost immediately after the Federal Circuit decided *Mallinckrodt*, one commentator noted that taking the holding of the case "at face value may require a certain amount of willing suspension of disbelief," and

companies that used it to engage in "aggressive business strategies" might "later be embarrassed by a judicial retreat from it and a return to the exhaustion doctrine." Stern, *supra*, at 8-9; *see also* Richard H. Stern, *The Unobserved Demise of the Exhaustion Doctrine in U.S. Patent Law*, 12 Eur. Intell. Prop. Rev. 460, 465 (1993) (describing *Mallinckrodt* as inconsistent with over a century of Supreme Court precedent, unprincipled, doctrinally unsound, and "insupportable, except as an exercise in judicial legislation").

In the ensuing years, *Mallinckrodt* remained "a controversial decision that left so many questions unanswered that businesses were hesitant to implement the kind of aggressive use restrictions that the Federal Circuit arguably sanctioned." Steven A. Maddox & David W. Slaby, *Despite a Recent Case Holding that Refilling Patented Toner Cartridges Does Not Constitute Infringement, Manufacturer Claims Its 'Single-Use' Patent is Tenable*, Nat'l L. J., Feb. 9, 1998, at B4. Then, many leading commentators thought this Court "unanimously rejected" *Mallinckrodt* in *Quanta*, and "restored the first sale rule to its original broad scope." Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine In Perspective*, 66 N.Y.U. Ann. Survey of Am. L. 487, 502 (2011); *see also* Pet. Br. 23-24 n.5. Affirming the Federal Circuit's holding below, however, could make *Mallinckrodt* a mainstream tactic for seeking unwarranted gains.

CONCLUSION

Amici urge this Court to hold once again that a sale authorized by a U.S. patent holder conclusively exhausts U.S. patent rights.

Respectfully submitted,

Matthew J. Hult
INTEL CORPORATION
2200 Mission College Blvd.
Santa Clara, CA 95054

Rachel Wainer Apter
Elizabeth R. Moulton
Paul D. Meyer
ORRICK, HERRINGTON & SUTCLIFFE LLP
51 West 52nd Street
New York, NY 10019

Mark S. Davies
Counsel of Record
ORRICK, HERRINGTON & SUTCLIFFE LLP
1152 15th Street, N.W.
Washington, DC 20005
(202) 339-8400
mark.davies@orrick.com

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IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICUS CURIAE* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF RESPONDENT

KEVIN H. RHODES
President
STEVEN W. MILLER
Chair Amicus Brief Committee
INTELLECTUAL PROPERTY OWNERS ASSOCIATION
1501 M Street, NW, Suite 1150
Washington, DC 20005
(202) 507-4500

ROBERT M. ISACKSON
Counsel of Record
WILLIAM D. COSTON
JOSHUA C. CUMBY
VENABLE LLP
575 Seventh Street, NW
Washington, DC 20004
(202) 344-4000
rmisackson@venable.com

Counsel for Amicus Curiae

February 22, 2017

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INTEREST OF *AMICUS CURIAE*

Amicus curiae Intellectual Property Owners Association (IPO) is a trade association representing companies and individuals that own and license intellectual property rights in all industries and fields of technology. IPO's membership includes more than 200 companies and more than 12,000 individuals involved in the association either through their companies or as inventor, author, executive, law firm, or attorney members. Many IPO members are involved in the licensing and sale of patented products and services, whether as patent owners, licensors, licensees, or users, and will benefit from clarification of the rights of patent owners and licensors to impose conditions on purchasers, licensees, and users of patented products and services. Founded in 1972, IPO represents the interests of all owners of intellectual property. IPO regularly represents the interests of its members before Congress and government entities and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law.[1] The members of the IPO Board of Directors which approved the filing of this brief are listed in the Appendix.[2]

---

1. Consistent with Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. Counsel for all parties have consented to the filing of this brief.

2. IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

STATEMENT

1. Respondent Lexmark International, Inc. (Lexmark) makes and sells toner cartridges both in the United States and abroad. Its cartridges are covered by a number of Lexmark's U.S. patents. All of the cartridges sold in the U.S. and some sold abroad were subject to an express single-use/no-resale restriction. Petitioner Impression Products, Inc. (Impression) acquired spent cartridges that had been sold by Lexmark both in the United States and abroad intending to reuse and resell the cartridges in the United States without Lexmark's authorization and contrary to the express single-use/no-resale restriction.

2. Lexmark sued Impression for patent infringement. Impression moved to dismiss Lexmark's suit, arguing that (1) the single-use/no-resale restriction is invalid under this Court's decision in *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008); and (2) Lexmark's patent rights were exhausted as to the cartridges sold abroad under this Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

3. The district court granted Impression's motion to dismiss on conditional-sale grounds, concluding that "the relevant caselaw does not reflect an endorsement by the Supreme Court of post-sale use restrictions once goods are placed into the ordinary stream of commerce" and that "[u]nder *Quanta*, . . . post-sale use restrictions do not prevent patent rights from being exhausted given that the initial sales were authorized and unrestricted." *Lexmark Int'l, Inc. v. Ink Techs.*

Printer Supplies, LLC, No. 1:10-CV-564, 2014 WL 1276133, at *6 (S.D. Ohio Mar. 27, 2014).

4. The district court denied Impression's international-exhaustion motion to dismiss, finding that *Kirtsaeng* was not inconsistent with the Federal Circuit's decision in *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), and refusing to apply *Kirtsaeng* to a case involving a patent, rather than a copyright. *Lexmark Int'l, Inc. v. Ink Techs. Printer Supplies, LLC*, 9 F. Supp. 3d 830, 834-38 (S.D. Ohio 2014).

5. On appeal and after a hearing before a single panel, the Federal Circuit ordered that the appeal be heard *en banc*. *Lexmark Int'l, Inc. v. Impression Prod., Inc.*, 785 F.3d 565 (Fed. Cir. 2015). The court also requested that the parties file new briefs addressing two questions:

   a. "In light of *Quanta* . . ., should this court overrule *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), to the extent it ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion?"

   b. "In light of *Kirtsaeng* . . ., should this court overrule *Jazz Photo* . . ., to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion?"

6. A substantial majority of the Federal Circuit judges (10-2) answered both questions in the negative. The court first affirmed its holding in *Mallinckrodt* "that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser, does not by that sale give the buyer, or downstream buyers, the resale/reuse authority that has been expressly denied." *Lexmark Int'l, Inc. v. Impression Prod., Inc.*, 816 F.3d 721, 726 (Fed. Cir. 2016) (*en banc*). It then affirmed its holding in *Jazz Photo*, "that a U.S. patentee, merely by selling or authorizing the sale of a U.S.-patented article abroad, does not authorize the buyer to import the article and sell and use it in the United States, which are infringing acts in the absence of patentee-conferred authority." *Id.* at 727.

SUMMARY OF ARGUMENT

On December 2, 2016, this Court granted the petition for a *writ of certiorari* to decide two independent questions:

1. Whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng* that the common law doctrine barring restraints on alienation that is the basis of the

> exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

Question 1. As to Question 1, IPO submits that this Court's ruling in *Quanta*, which distinguished and reaffirmed *General Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, *affirmed on reh'g*, 305 U.S. 124 (1938), does not render unlawful all forms of conditional sales of patented products. Nor should it. Post-sale restrictions on a patented article's use or resale do not invoke application of the patent exhaustion doctrine. In *Quanta* this Court distinguished *Talking Pictures*, observing that in the latter case the provision restricting uses to those permitted by the patent owner was found in the license itself, whereas in *Quanta* the license authorizing the sale of patented chips made by the licensee was unconditional. 553 U.S. at 636-37.

When it rendered its decision in *Quanta*, this Court was aware of the Federal Circuit's *Mallinckrodt* decision and the reliance placed on that decision by patent owners. Although this Court reversed the Federal Circuit's conclusion in *Quanta* as to exhaustion, the complete absence of any mention of *Mallinckrodt* – particularly when combined with the Court's reaffirmation of *Talking Pictures* – should be viewed as affirmation that properly crafted restrictions in sales contracts and license agreements on fields-of-use, customers, resale, and the like are to be upheld as long as they do not exceed the lawful scope of the patent. This outcome is important to IPO and its members, as they have long relied on their ability to have lawful restrictions "run with the patent."

A ruling otherwise would, incongruously and illogically, treat differently conditional sales by a licensee and those by a patent owner-licensor. When proper notice is given to the purchaser of patented goods whose use or resale is restricted by the patent owner (or its licensee), it would be irrational to reach different results depending on whether the sale was made by the patent owner or by its licensee or whether the restraint is initially imposed in a license or in a sales agreement. Indeed, it would be counterintuitive for a licensee, who takes by license limited rights from the patent owner, to have more power than the patent owner to control the downstream use of the patented product or process. As long as the customer consents to the restriction at the time of the transaction, there is neither unfairness nor impracticality in enforcing such restrictions on the use or resale of patented items.

Question 2. Question 2 is independent of Question 1, and the answer to the first does not implicate, much less compel, the answer to the second. As to Question 2, IPO submits that the copyright exhaustion ruling in *Kirtsaeng* on its own terms does not apply in patent cases. The Copyright Act provides explicit direction for exhaustion which is contrary to that provided in the Patent Act and the policy considerations for patent rights differ substantially from those for copyright works. Therefore, the existing and clearly established jurisprudence governing international exhaustion reflected in the Federal Circuit's *Jazz Photo* ruling and its progeny should not be disturbed.

In *Kirtsaeng*, this Court had ample opportunity to equate patent policy and copyright policy had it intended to do so, and the absence of any mention of patents is an

indication that this Court viewed the two bodies of law as distinct. It was appropriate for this Court to confine its focus to copyright law alone, because many of the policy considerations that underlie copyright exhaustion differ substantially from those underlying patent exhaustion. Moreover, the *Kirtsaeng* decision itself is grounded primarily in the statutory language of section 109 of the Copyright Act, 17 U.S.C. § 109, which was based on considerations unique to copyright law, whereas the doctrine of patent exhaustion is purely a creature of decisional law developed in patent cases. IPO does not believe that the Federal Circuit's decisions in *Jazz Photo* and its progeny should be modified with respect to whether sales by the patent owner in foreign countries exhaust U.S. patent rights. Again, this outcome is important to IPO and its members, as they have relied on the rule that sales abroad are legally different under the patent laws than sales in the United States.

ARGUMENT

This Court has long recognized that conditions on the sale or licensing of patented products are valid and enforceable, as long as those conditions are otherwise lawful and consistent with the scope of the patent protection for those products. This Court has also independently recognized that sales abroad of patented products and services do not exhaust patent protection. The Court should not change course on either issue. To the contrary, the Court should reaffirm the principles set forth in *Jazz Photo* and *Mallinckrodt* and affirm the decision below.

I. This Court's *Quanta* decision does not render all forms of conditional sales or licenses of patented products unlawful, nor should it.

The validity and enforceability of conditional sales and licenses has long been recognized by both this Court and the Federal Circuit. Just eight years ago, in *Quanta*, this Court reaffirmed this longstanding rule established in *Talking Pictures*. The Federal Circuit faithfully applied that rule in both its *Mallinckrodt* decision and the decision below. For these reasons, the rule should be affirmed once again, as should the Federal Circuit's decision in this case.

A. The policies underlying reasonable limitations on use and resale in sales contracts and licensing agreements are sound and well-settled, and long-standing practices in the pharmaceutical, agricultural, and technology industries relying on such limitations weigh heavily against a break from this Court's precedents recognizing their validity.

The legitimacy of imposing reasonable restrictions on the use and sale of patented products has a sound statutory basis. 35 U.S.C. § 271(a)[3] recites separately the specific rights that are included in the statutory bundle of patent rights – *i.e.*, the rights to exclude others from making, using, offering to sell, selling, and importing the patented invention.[4] The only practical way to ensure

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3. The relevant portion of § 271(a) essentially codified section 4884 of the Revised Statutes, which defined infringement at the time of *Talking Pictures*.

4. This Court has long recognized the implications of these separate recitations of rights. See, for example, *Adams v. Burke*,

the separability of these rights is to allow patent owners the freedom to sell and license those rights separately without risk of losing the remaining rights. This freedom to separate out and even subdivide restraints on use and sale was recognized well before *Talking Pictures*, and has provided the conceptual foundation for many types of sales and license restrictions, including now-classic fields-of-use and territorial limitations.[5] And it is long-established and well-settled law that a patentee is not required to convey all of its rights in a patent – every "stick" in its "bundle" of property interests – in a single transaction. *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873).

The freedom to contract works both ways; not only is the patentee given the flexibility to sell or license some,

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84 U.S. (17 Wall.) 453, 456 (1873), in which this Court noted that "[t]he right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee."

5. *E.g.*, *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 15 (1913) ("Thus, there are several substantive rights, and each is the subject of subdivision, so that one person may be permitted to make, but neither to sell nor use, the patented thing. To another may be conveyed the right to sell, but within a limited area, or for a particular use, while to another the patentee may grant only the right to make and use, or to use only for specific purposes."); *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 548 (1872) (affirming a finding of infringement by one who purchased a patented machine from a licensee that had the right to make and use but did not have the right to sell the machine during the term of the patent, this Court distinguished the situation before it, where the patent owner had clearly restricted the right of a licensee to sell machines, from one "where the sale is absolute, and without any conditions" and the buyer would therefore be free to treat the machine as his or her "private individual property.").

all, or none of its patent rights (consistent with the *quid pro quo* of public disclosure of the invention in exchange for a time-limited power to exclude competition), but a purchaser has the flexibility to pay for only those rights it needs or intends to use. And allowing a patentee to exercise control over end products incorporating patented technology by imposing restrictions on, for example, quality or re-sale, protects the consuming public and the patentee's reputation.

Restrictions on downstream conveyances of patent rights are beneficial and procompetitive, because they allow a patent owner to license or to sell a new technology selectively to individual entities most likely to succeed within a specified field-of-use, territory, or customer population. Downstream restrictions also allow the patent owner to create incentives for potential users to invest time and resources in the development of their assigned markets, rather than elsewhere. Reasonable restrictions on downstream users sometimes provide the incentive for patent owners to grant rights that otherwise might not be possible – for example in situations when the patent owner intends to commercialize its own invention within one market segment but is willing to allow others to exploit the invention in other segments. This, of course, was the precise situation in *Talking Pictures*. *See* 304 U.S. at 179. Without an enforceable restriction, a rational patent owner faced with the need to compete with its own licensees or their customers might well decide not to sell or license at all. The procompetitive benefits of conditional conveyances are noted in "Antitrust Guidelines for the Licensing of Intellectual Property," promulgated jointly by the Department of Justice and the Federal Trade Commission in 1995:

> Field-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible. These various forms of exclusivity can be used to give a licensee an incentive to invest in the commercialization and distribution of products embodying the licensed intellectual property and to develop additional applications for the licensed property.

U.S. Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.3 (1995).

A departure from well-settled rules that allow patentees, under the patent laws, to limit use and resale in sales contracts and licensing agreements particularly frustrates long-standing practices in many industries, including the pharmaceutical, agricultural, and technology industries. Overturning such a longstanding precedent would have a serious detrimental effect on the many thousands of licenses in place that govern many aspects of business. For decades, IPO and its members have relied on their ability to have lawful restrictions "run with the patent." Such restrictions allow patentees to charge differential prices based on use, which decreases costs; encourages development of new products and technologies; and provides access to users who could not afford to pay for unlimited-use rights. As this Court recognizes, such reliance interests are particularly relevant in deciding whether to depart from precedent because "[a]dherence to precedent promotes stability, predictability, and respect for judicial authority." *Hilton v. S. Carolina*

Pub. Railways Comm'n, 502 U.S. 197, 202 (1991) *see also Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2410 (2015) (declining to overrule a decision that "has governed licensing agreements for more than half a century" and noting that the decision enjoys a "superpowered form of *stare decisis*" because it was based on an interpretation of the patent laws and lay "at the intersection of two areas of law: property (patents) and contracts (licensing agreements)" in which "considerations favoring *stare decisis* are 'at their acme'" because "parties are especially likely to rely on such precedents when ordering their affairs.") (quoting *Payne v. Tennessee*, 501 U.S. 808, 828 (1991)); *Quill Corp. v. N. Dakota*, 504 U.S. 298, 316 (1992) (industry's reliance justifies adherence to precedent).

Consistent with industry standards and sound economics, for example, Lexmark offered cartridges subject to its no-reuse/no-resale restriction at a discount, and if a purchaser wished to reuse or resell Lexmark's patented cartridges, it was obligated to pay a premium to do so. A rule invalidating Lexmark's restriction for purposes of patent exhaustion, however, eliminates the utility and commercial practicality of this distinction, either increasing the costs of cartridges across the board or decreasing the incentive to innovate and create better cartridges because Lexmark might never recoup the costs of that innovation. And the inefficient effects of such a rule would not be confined to the printer cartridge industry. Patent protection is a key incentive for innovation in numerous fields. Permitting otherwise lawful restrictions on sales and licenses ensures that patentees can recover their costs. And such restrictions allow patent owners to provide access to a variety of buyers and licensees through differential pricing in different markets.

B. *Talking Pictures* established the enforceability of sales and license provisions that restrict the use of patented items.

This Court's 1938 ruling in *Talking Pictures* provides a solid foundation for the Federal Circuit's ruling in both *Mallinckrodt* and its decision below in this case. As noted in Section C, below, *Talking Pictures* was expressly acknowledged and reaffirmed in this Court's *Quanta* decision.

The patents at issue in *Talking Pictures* covered sound amplifiers and were licensed by the patent owner to multiple licensees, with each one allowed to pursue a specified field-of-use. The license restriction relevant to this Court's decision provided that the licensee was not allowed to sell amplifiers for commercial, as opposed to private, uses. 304 U.S. at 180-82; *on reh'g*, 305 U.S. at 125-27. The defendant theatre operator, which had purchased its sound system from an entity licensed to sell only for amateur radio applications, argued that the license restriction was not enforceable and that the patent exhaustion doctrine allowed unrestricted use of amplifiers that had been manufactured by a licensee under the patent and sold "in the ordinary channels of trade" for full consideration. *Id.*

This Court held otherwise, ruling that the amplifiers at issue had not been made and sold "under the patent," because the field-of-use restriction limited the scope of the seller's license to do so. *Id.* This Court stated that:

> Unquestionably, the owner of a patent may grant licenses to manufacture, use, or sell upon

> conditions not inconsistent with the scope of the monopoly. There is here no attempt on the part of the patent owner to extend the scope of the monopoly beyond that contemplated by the patent statute.

304 U.S. at 181 (citations omitted). Both the seller and the theater operator were found to infringe the patent, notwithstanding the license agreement:

> The [licensee] could not convey to [the theatre operator] what both knew it was not authorized to sell. By knowingly making the sales to [the theatre operator] outside the scope of its license, the [licensee] infringed the patents embodied in the amplifiers. [The theatre operator], having with knowledge of the facts bought at sales constituting infringement, did itself infringe the patents embodied in the amplifiers when it leased them for use as talking picture equipment in theaters.

Id. at 181-82 (citations omitted).[6]

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6. Another issue certified by the Court in *Talking Pictures* was the adequacy of a label license restriction as the basis for holding the theatre operator liable for infringement, along with the licensee. There was no dispute that the theatre operator knew of the license restriction and knew that the sale by the licensee was outside the scope of the seller's license. Therefore, this Court declined to decide whether the "license notice" included with each sale of sound equipment would have been adequate, standing alone, to make the customer liable for infringement. "As petitioner at the time it bought the amplifiers knew that the sales constituted infringement of the patents embodied in them, petitioner's second question, as to effect of the license notice, need not be considered." 304 U.S. at 182.

The dissent by Justice Black, *id.* at 183, *et seq.*, *on reh'g*, 305 U.S. at 128, *et seq.*, would have precluded patent owners from imposing any restrictions at all on the uses to which a licensed article could be put after it was sold. In his view, a strict application of the exhaustion doctrine would have trumped any procompetitive benefits that might result from restrictive licensing. Citing *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895), *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913), and *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917), the dissent argued that, even though restrictions on use of patented products were common in patent licenses, such restrictions should not be allowed to support patent infringement claims against products sold by licensees. 305 U.S. at 185-86.

In rejecting this view, the majority in *Talking Pictures* necessarily reaffirmed a foundational principle of patent law – a patent owner is permitted to impose reasonable restrictions on downstream purchasers of its patented products with respect to uses that they are permitted to make. The continued viability of that rule has never been revisited nor seriously questioned by this Court.

C. The *Mallinckrodt* decision and the decision below reflect a straightforward application of *Talking Pictures*.

In *Mallinckrodt*, the Federal Circuit analyzed the exhaustion doctrine in the context of a patented "nebulizer" sold to hospitals and used for allowing patients to inhale a radioactive or therapeutic material for diagnostic or therapeutic purposes. The district court granted summary judgment assuming the following facts:

1) plaintiff Mallinckrodt sold the nebulizer with a "single use only" label restriction attached to the device itself and had included a copy of the notice with packaging materials for the device; 2) the hospital to which the device was sold, despite knowledge that Mallinckrodt intended through its terms of sale to prohibit multiple uses of the device, nevertheless sent used devices to defendant Medipart for sterilization and reloading with the diagnostic material; and 3) like the hospital, Medipart was also aware of the use restriction imposed by Mallinckrodt. 976 F.2d at 701-02.

The district court granted summary judgment for the defendant as to patent infringement, ruling as a matter of law that the patent exhaustion doctrine nullified any effect of the label restriction on the hospital's right to reuse the nebulizer. The district court also entered an injunction against Mallinckrodt's sending of a revised notice.

The Federal Circuit reversed the injunction and remanded for further consideration of the question of patent exhaustion. Relying principally on this Court's decision in *Talking Pictures*, the Federal Circuit held that the exhaustion doctrine could not be applied to defeat infringement without first determining whether Mallinckrodt's efforts to control the reuse of its devices were binding under the patent laws, as a restriction on use similar to the one approved by the Supreme Court:

> We conclude that the district court erred in holding that the restriction on reuse was, as a matter of law, unenforceable under the patent law. If the sale of the [nebulizer] was validly conditioned under the applicable law such as the law governing sales and licenses, and if

> the restriction on reuse was within the scope of the patent grant or otherwise justified, then violation of the restriction may be remedied by action for patent infringement.

976 F.2d at 709. Similarly, in its decision below, the Federal Circuit concluded – "as [it] did in *Mallinckrodt* and subsequent decisions" – that "[a] sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the 'authority' to engage in the use or resale that the restriction precludes." 816 F.3d at 735.

The important question is not whether the restriction is imposed in a sales agreement between a patentee and a direct purchaser or indirectly through a license agreement, but whether the restriction itself runs contrary to some legal policy found in patent law, antitrust law, or principles of equity. A restriction on the use or resale by a purchaser of patented products represents an exception to the exhaustion doctrine that is dependent upon proper notice to the restricted purchaser. The ability to satisfy this condition is the same whether imposed directly by the patent owner in a sales agreement or through a license provision. Likewise, the impact on the market for consumption of the patented product is not dependent on whether the restraint is imposed directly by a patent owner or indirectly through a license agreement. To the extent such a provision serves a beneficial or procompetitive purpose and is otherwise lawful, the effect will be similar in both cases.

The *Mallinckrodt* court also observed that drawing a purely formalistic line between restrictions on customers

of the patent owner and customers of its licensees would be pointless, because it could easily be avoided. 976 F.2d at 705. This is clearly the case. For example, a patent owner that might otherwise sell directly to customers and impose use or resale restrictions as a condition of the sale could easily create a separate corporate entity to become a licensee-seller and accomplish the same result by indirection. IPO submits that there is nothing to be gained by engaging in formalistic distinctions of this type and consequent make-work.

D. *Talking Pictures* was distinguished and reaffirmed in this Court's *Quanta* decision.

In *Quanta*, this Court held that unconditional sales of microprocessors and chipsets (chips) by Intel Corporation, a licensee under the LGE patents at issue, had exhausted the relevant LGE patent rights and that LGE therefore had no right to pursue infringement claims against Quanta Computer and other Intel customers that combined the licensed chips with other components to create and sell computers. The LGE-Intel license agreement itself did not limit the customers to which Intel could sell its chips nor did it limit the uses to which Intel's customers could put the products. The license agreement did contain a provision stating that no license was being extended to any of Intel's customers. A separate contract between Intel and LGE required Intel to inform purchasers of its chips that they might need a separate license from LGE to combine Intel chips with non-Intel parts, and insofar as the record shows, Intel complied with that provision. 553 U.S. at 621-24.[7]

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7. The agreement also stated that the doctrine of patent exhaustion was fully applicable. As noted by this Court:

LGE brought infringement suits against Quanta and other Intel customers based on patents covering the combination of Intel's chips with other non-Intel components. The district court granted summary judgment based on the exhaustion doctrine, which the Federal Circuit reversed. The Federal Circuit analyzed the exhaustion question as a one of implied license. Finding no implied license running from LGE to Intel's customers, the court held that there was no exhaustion of LGE's patent rights in light of the language of the license and particularly the side agreement between Intel and LGE. *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1369-70 (Fed. Cir. 2006). The Federal Circuit relied specifically on its prior ruling in *Mallinckrodt* and on this Court's decision in *Talking Pictures* to reach that conclusion.

In reversing, this Court reviewed the history of the exhaustion doctrine and particularly its applicability to the specific situation before the Court in which the licensed chips sold by Intel were not specifically covered by the system patents being asserted against Quanta and others. This Court relied on *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), to hold, first, that the exhaustion doctrine does not depend on the existence of an implied license, but

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> The License Agreement purports not to alter the usual rules of patent exhaustion, however, providing that, "'[n]otwithstanding anything to the contrary contained in this Agreement, the parties agree that nothing herein shall in any way limit or alter the effect of patent exhaustion that would otherwise apply when a party hereto sells any of its Licensed Products.'"

553 U.S. at 623 (quoting Petitioners' Brief).

operates as a limitation on the patent right itself. 553 U.S. at 626-27. Second, this Court held that exhaustion applies as much to method patents as to apparatus patents. *Id.* at 628-30. Third, this Court held that even though the chips sold by Intel were not expressly covered by the patent claims being asserted against Intel's customers, exhaustion would nevertheless apply because the only use for the chips was to incorporate them into the systems accused of infringement. *Id.* at 630-35.

More directly germane to the issues before the Federal Circuit in this case, LGE cited *Talking Pictures* to argue that its license to Intel, combined with their contemporaneous side contract, imposed limits on the extent to which Intel's customers could use and resell the products sold by Intel. More specifically, LGE argued that incorporation of Intel's chips into computers without a separate license was prohibited by the terms of its license to Intel. *Id.* at 636-37. This Court disagreed, ruling that *Talking Pictures* was inapplicable, because the license agreement was not conditional and allowed Intel to make unrestricted sales of its chips to anyone. This Court explained its conclusion as follows:

> LGE overlooks important aspects of the structure of the Intel-LGE transaction. Nothing in the **License Agreement** restricts Intel's right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts. . . . To be sure, LGE did require Intel to give notice to its customers, including Quanta, that LGE had not licensed those customers to practice its patents. But neither party contends that Intel breached the

> agreement in that respect. In any event, the provision requiring notice to Quanta appeared only in [a side agreement], and LGE does not suggest that a breach of that agreement would constitute a breach of the License Agreement. Hence, Intel's authority to sell its products embodying the LGE Patents was not conditioned on the notice or on Quanta's decision to abide by LGE's directions in that notice. . . . [E]xhaustion turns only on Intel's own license to sell products practicing the LGE Patents.

Id. (citation omitted, emphasis supplied).

This Court did not suggest that it was overruling the *Talking Pictures* case or limiting it in any way. Far from it, this Court used it as a yardstick and accepted the continuing viability of *Talking Pictures* as a precedent allowing the imposition of reasonable restrictions on use and resale of patented products by customers with respect to fields-of-use, territories, market segments, and the like when such restrictions are agreed upon in a sales or license agreement.

This Court's decision in *Quanta* does not mention the Federal Circuit's decision in *Mallinckrodt* at all, nor, given the disposition that this Court made of the conditional sales argument by LGE, was there any need for it to do so. Accordingly, there is no basis in the *Quanta* opinion for believing that this Court intended to overrule *Mallinckrodt sub silentio* or that it should do so today by reversing the Federal Circuit's decision below. Thus, the Federal Circuit's decision should be affirmed.

II. This Court's decision in *Kirtsaeng* does not apply to patents and did not overrule *Jazz Photo*.

Separate and apart from the question whether post-sale restrictions on a patented article's use or resale are enforceable through a suit for patent infringement, this Court should decide that the copyright exhaustion ruling in *Kirtsaeng* does not apply in patent cases. As a matter of statutory interpretation, policy, and settled precedent, *Kirtsaeng*, which held that the first-sale doctrine applies to copies of a copyrighted work lawfully made abroad, simply does not apply to the sale abroad of goods covered by a U.S. patent.

A. The policies that underlie patent exhaustion differ fundamentally from those defining the first-sale doctrine in copyright law.

For a variety of reasons, patented inventions are less likely than are books, sculpture, paintings, photographs, software, and other objects of copyright protection to trigger the policy considerations relied on in *Kirtsaeng* that require a geographically unlimited exhaustion rule for copyrights.[8] Patent rights, unlike copyrights, do not come into being automatically, but must be granted specifically for each country in which they exist, usually after extensive scrutiny of the putative inventor's innovation by the issuing authority. Patent rights also can vary depending on whether the innovation rises to satisfy

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8. As this Court has noted, although public policy, trade policy, and consumer protection "are not unimportant considerations, [ ] they are [ ] considerations more properly addressed to Congress than to this Court." *Reiter v. Sonotone Corp.*, 442 U.S. 330, 345 (1979).

patent eligible subject matter, a standard that varies in different countries, and the scope of patent rights may differ with respect to the same invention, so that what is protected in the United States might not be elsewhere.[9] And unlike the rights granted to copyright holders, Congress spoke with a different voice in that the Patent Act specifically grants U.S. patent holders the right to exclude unauthorized imports of patented goods into the United States. *See* 35 U.S.C. §§ 271(a) ("whoever without authority ... imports into the United States"), 271(g) (same), 295 (same).

Likewise, the settled nature of expectations differs widely between the two forms of protection. One of the reasons cited by this Court for its *Kirtsaeng* ruling was that owners of works protected by copyrights had, for decades, assumed that there were no geographical limits on their rights to use or display those works. 133 S. Ct. at 1366. No comparable showing as to patented articles is apparent from the record here, the statute says otherwise, and in light of the case law discussed in Section D, below, the reverse is more likely the case today.

A departure from *Jazz Photo*'s rule and this Court's patent exhaustion precedents also would be inconsistent with public policy. Refusing to recognize international exhaustion encourages U.S. patent owners to innovate by permitting them to recover their investments in innovation through sales of patented products and services in the U.S.

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9. Whereas copyright protection is relatively easy to obtain everywhere, patent protection is easy to obtain in some countries, harder to obtain in other countries, and wholly unavailable for some classes of inventions.

Patentees often supply their patented pharmaceutical, agricultural, and medical products to developing nations at discounts, in part because, under *Jazz Photo*, those products cannot be imported into the United States and resold without the patentees' authorization. Patent owners receive incremental revenue from such foreign sales, presumably at lower rates that the foreign markets can afford, but these sales nevertheless subsidize innovation in the developing world, which in turn stimulates innovation in the U.S. Thus, a rule of non-exhaustion creates a virtuous cycle by "promot[ing] the Progress of Science and useful Arts," U.S. Const. art. I, § 8, cl. 8, and foreign commerce.

If foreign sales necessarily exhaust patents, however, patentees cannot recoup their investments in innovation and will either charge full price for their products in all instances or choose not to offer them in those parts of the world arguably most in need of them. Recognizing international patent exhaustion undercuts the incentive to innovate and market patented articles abroad, stifling foreign commerce and its benefits in both the developed and developing world. Should this Court reverse the Federal Circuit and overrule *Jazz Photo*, for example, Lexmark may choose either to charge full price for its cartridges, regardless of whether a purchaser intends to reuse or resell them, or not to sell its cartridges abroad. Similarly, a pharmaceutical company, confronted with this momentous change in the law, may either increase the price of its products everywhere or choose to sell them only where it has the benefit of the new, circumscribed patent exhaustion rule. In either case, purchasers in developing countries will either pay more for products they need or be deprived of them altogether.

Importation into the United States of products sold abroad whose patent protection has necessarily been exhausted also undermines patentees' ability to protect the public from health, safety, and quality risks associated with post-sale handling of the products. Recognizing international patent exhaustion absolves foreign buyers of any obligation to maintain the quality of patented products they intend to import into the United States for resale, an absolution that has the potential not only to harm the public, but to unfairly tarnish the reputation of the patentee. A purchaser of Lexmark's cartridges in a foreign country, for example, would have no obligation under patent law to make sure those cartridges worked properly if imported and sold in the United States, should this Court determine that patent exhaustion applies internationally. And although faulty cartridges might not pose as significant a public health risk as, say, faulty pharmaceuticals, their impairment would discredit Lexmark. Thus, applying *Kirtsaeng*'s rule to patents is potentially dangerous.

In its brief in support of the Petition, the United States suggests that some of the trade agreements to which the United States is a party indicate that patent owners must expressly condition against exhaustion. *See* Brief of United States at 18-20. Yet the United States acknowledges that Congress has "enacted laws approving free trade agreements that commit the United States to preserve 'the exclusive right of the patent owner to prevent importation of a patented product' notwithstanding a foreign sale of that product," and that it "has left intact the statutes approving the prior free trade agreements *and has not altered U.S. law relating to international exhaustion.*" *Id.* at 19 (emphasis supplied). IPO submits

that the second statement is particularly relevant given the recent enactment of the Leahy–Smith America Invents Act (AIA), Pub. L. 112–29, 125 Stat. 284 (2011). Unlike Congress's amendment of the Copyright Act in 1976 – an amendment that underlay this Court's decision in *Kirtsaeng* – Congress undertook an overhaul of the Patent Act in the AIA that notably omitted any change to the law of patent exhaustion.

B. This Court's decision in *Kirtsaeng* relied primarily on a proper statutory construction of section 109 of the Copyright Act.

This Court's ruling in *Kirtsaeng* rests almost entirely on the construction of the phrase "lawfully made under this title" found in section 109(a) of the Copyright Act, 17 U.S.C. § 109(a), a statutory provision added to the Act in 1978 to clarify the reach of the first-sale doctrine with respect to copyrighted works. In *Kirtsaeng*, the copyright owner printed and sold books outside the United States. The first inside page contained, along with notice of the publisher's U.S. copyright, a statement that the books were not authorized for resale in the U.S. Notwithstanding this admonition, Kirtsaeng purchased some of the books in Thailand and resold them in the U.S., thereby precipitating a copyright suit by the publisher. 133 S. Ct. 1351, 1356-57.

In defense of his actions, Kirtsaeng argued that he had lawfully purchased the books from the publisher and that, once sold, section 109 of the Copyright Act extinguished the publisher's right to control resale of the books. The publisher argued that because the sale of a book outside the U.S. was not subject to its U.S. copyright, there could be no exhaustion arising from such sale. *Id.*

Based on a detailed and extensive inquiry into the origins of section 109 and its relationship with other provisions in the Copyright Act, most notably sections 106(3) and 602(a)(1), this Court concluded that section 109 was not subject to the same geographical limitations as the publisher's right to assert infringement of its U.S. copyright. This Court's analysis focused principally on the language of section 109 itself, noting that whether a foreign sale was "lawfully made under" title 17 was the central question, *i.e.*, whether the phrase contemplated only sales in the U.S. or should be construed more broadly. *Id.* at 1357-58.

To discern the meaning of section 109, this Court relied on established principles of statutory construction, finding no congressional intent to limit first sale protection on a geographical basis and raising a number of practical problems – "horribles" as some of the briefings called them – that would come into play if there were such a limitation. *Id.* at 1365-66. Without universal exhaustion arising from the first sale by the copyright owner, this Court envisioned many difficult questions that could arise. *Id.*

C. The *Kirtsaeng* decision does not mention patents or rely on any cases dealing with patent exhaustion.

Importantly, this Court's decision in *Kirtsaeng* does not mention patents, patent policy, or patent law. Nor does the decision rely on any patent exhaustion cases for its rationale. This absence of even a single reference to patents in addressing the copyright exhaustion issue

does not appear to be an oversight.[10] The decision contains 22 separate citations to this Court's seminal ruling in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), wherein a common law version of the "first-sale doctrine" for copyrighted works was first established. In *Bobbs-Merrill*, a publishing house sued a retailer claiming that sales of a copyrighted book for less than the minimum price printed inside the cover was copyright infringement. To support this restriction on the resale price of its books, the publisher relied on legal precedents that gave patent owners the right to control the price at which a licensee could sell products manufactured under a patent license. Ruling against the publisher, this Court rejected the argument that rules applicable to patents should apply

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10. *Cf. Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (considering contributory infringement, this Court noted that "[t]here is no precedent in the law of copyright for the imposition of vicarious liability on such a theory. The closest analogy is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law.") Any kinship however, does not mandate slavish application of copyright principles to patent law. As the *Sony* Court acknowledged, and the *Quanta* Court did not refute:

> As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product. Because this task involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand, our patent and copyright statutes have been amended repeatedly.

Id. at 429.

automatically to copyrights, citing "wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statute." *Id.* at 342-46. Given this unambiguous rejection of patent law principles as relevant to copyright exhaustion in the *Bobbs-Merrill* case, it is unlikely indeed that the *Kirtsaeng* Court intended – *sub silentio* – for its decision to be *a fortiori* applicable to patent cases.[11]

D. Both this Court's and the Federal Circuit's international-exhaustion jurisprudence are well-established and fully applicable to the facts at issue.

The Federal Circuit has held, consistently and explicitly, that exhaustion of U.S. patent rights does not occur as to goods sold by the patent owner in a foreign country. The Federal Circuit considered that question directly in *Jazz Photo*, wherein it stated:

> To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent. Our [exhaustion] decision applies only to [products] for which the United States patent right has been exhausted by first sale in the

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11. *See Sony*, 464 U.S. at 442 ("We recognize there are substantial differences between the patent and copyright laws."), 491 ("Despite their common constitutional source, see U.S. Const., Art. I, § 8, cl. 8, patent and copyright protections have not developed in a parallel fashion, and this Court in copyright cases in the past has borrowed patent concepts only sparingly." (Blackmun, J., dissenting) (citing *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 345–346 (1908)).

> United States. Imported [products] of solely foreign provenance are not immunized from infringement.

264 F.3d at 1105 (citation omitted).

If there were any doubt about the scope of that ruling, it was eliminated in *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed. Cir. 2005), wherein the Federal Circuit stated unequivocally that its reliance in the earlier *Jazz Photo* case on the Supreme Court's 1890 ruling in *Boesch v. Graff*, 133 U.S. 697 (1890), was not limited to situations in which the foreign sale was by someone other than the patent owner:

> Jazz . . . does not escape application of the exhaustion principles because Fuji or its licensees authorized the international first sales of these [products]. The patentee's authorization of an international first sale does not affect exhaustion of that patentee's rights in the United States.

394 F.3d at 1376.

Following this Court's decision in *Quanta*, the Federal Circuit reaffirmed those earlier rulings, noting that "neither the facts nor the law in *Quanta Computer* concerned the issue of importation into the United States of a product not made or sold **under a United States patent.**" *Ninestar Tech. Co., Ltd. v. Int'l Trade Comm'n*, 667 F.3d 1373, 1378 (Fed. Cir. 2012) (emphasis supplied) (affirming a civil penalty for violation of an ITC cease and desist order by a Chinese infringer) *accord Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010) (affirming a damage award for unlawful importation).

Further, the bundle of rights specifically set forth in the Patent Act includes the right of the patent owner to exclude imports of the patented invention. *See* 35 U.S.C. §§ 271(a), 271(g) (imposing liability for, among other things, importing into the U.S. the product of a patented process), 295 (creating a presumption that an imported product is made by a patented process given certain findings). This is a key right granted by Congress to patentees to prevent buyers of products outside of the United States, including those buyers who make purchases from the patentee, from importing those goods into the United States. In fact, a patentee often will license its technology in a defined country or geography to certain licensees with the assurance that those goods will not be imported into the United States since the US patent will not be exhausted. This is similar to the geographical use restrictions within the United States permitted by this Court in the *Talking Pictures*. These types of licenses are procompetitive and allow the licensor to exploit its property as efficiently and effectively as possible in particular countries or geographies.

Nothing in the *Kirtsaeng* opinion states that this Court intended it to upend this well-established precedent. The *Kirtsaeng* opinion neither compels nor suggests that its holding applies to patent law, which would disrupt the long-settled expectation that the sale of products in a foreign country, whether by the patent owner or someone else and whether or not the sale is made pursuant to a foreign counterpart of a United States patent, does not exhaust any United States patent rights. As the Federal Circuit found below, *Kirtsaeng* is thus inapplicable here, and the rule that sales abroad are legally different than sales in the United States, upon which IPO and its members rely, should be affirmed.

CONCLUSION

For the reasons set forth herein, this Court's own precedent in *Talking Pictures* still applies. The Patent Act and the policies behind patent rights dictate patent exhaustion and the ability of patent owners to place restrictions on use and resale of their property. The Copyright Act is inapposite.

Patent rights are limited territorially by the nationality of the issuing agency, and sales outside the U.S. cannot exhaust U.S. patent rights as a matter of law.

IPO urges this Court to affirm the decision below and preserve freedom to contract to the maximum extent possible. That holding will provide the parties to sales and license contracts maximum flexibility to arrive at commercially feasible and procompetitive arrangements.

Respectfully submitted,

KEVIN H. RHODES
President
STEVEN W. MILLER
Chair Amicus Brief Committee
INTELLECTUAL PROPERTY
OWNERS ASSOCIATION
1501 M Street, NW, Suite 1150
Washington, DC 20005
(202) 507-4500

ROBERT M. ISACKSON
Counsel of Record
WILLIAM D. COSTON
JOSHUA C. CUMBY
VENABLE LLP
575 Seventh Street, NW
Washington, DC 20004
(202) 344-4000
rmisackson@venable.com

Counsel for Amicus Curiae

February 22, 2017

APPENDIX

APPENDIX[1]

Members of the Board of Directors Intellectual Property Owners Association

Scott Barker
Micron Technology, Inc.

Edward Blocker
Koninklijke Philips N.V.

Amelia Buharin
Intellectual Ventures, LLC

Karen Cochran
Shell International B.V.

John D. Conway
Sanofi

William J. Coughlin
Ford Global Technologies LLC

Buckmaster de Wolf
General Electric Co.

Anthony DiBartolomeo
SAP SE

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Enventys

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AT&T

Darryl P. Frickey
Dow Chemical Co.

Creighton Frommer
RELX Group

Gary C. Ganzi
Evoqua Water Technologies LLC

Krish Gupta
Dell Technologies

Henry Hadad
Bristol-Myers Squibb Co.

Heath Hoglund
Dolby Laboratories

Philip S. Johnson
Johnson & Johnson

Thomas R. Kingsbury
Bridgestone Americas, Inc.

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1. IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

Appendix

William Krovatin
Merck & Co Inc.

Mark Lauroesch
Intellectual Property
Owners Association

Peter Y. Lee
Thermo Fisher Scientific
Inc.

Elizabeth Ann Lester
Equifax Inc.

Allen Lo
Google Inc.

Timothy Loomis
Qualcomm, Inc.

Thomas P. McBride
Monsanto Co.

Elizabeth McCarthy
Avaya

Todd Messal
Boston Scientific Corp.

Steven W. Miller
Procter & Gamble Co.

Micky Minhas
Microsoft Corp.

Lorie Ann Morgan
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Richard F. Phillips
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Dana Rao
Adobe Systems Inc.

Kevin Rhodes
3M Innovative Properties
Co.

Curtis Rose
Hewlett Packard
Enterprise

Paik Saber
Medtronic, Inc.

Matthew Sarboraria
Oracle Corporation

Manny W. Schecter
IBM Corp.

Steven J. Shapiro
Pitney Bowes Inc.

Jessica M. Sinnott
DuPont

Dennis C. Skarvan
Caterpillar Inc.

Appendix

Daniel Staudt
Siemens

Brian Suffredini
United Technologies Corp.

James J. Trussell
BP America, Inc.

Roy F. Waldron
Pfizer Inc.

BJ Watrous
Apple Inc.

Stuart Watt
Amgen, Inc.

Mike Young
Roche, Inc.

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IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari
to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICI CURIAE* INTELLECTUAL PROPERTY PROFESSORS AND AMERICAN ANTITRUST INSTITUTE IN SUPPORT OF PETITIONER

Phillip R. Malone
Counsel of Record
Jef Pearlman
JUELSGAARD INTELLECTUAL PROPERTY AND INNOVATION CLINIC
MILLS LEGAL CLINIC AT STANFORD LAW SCHOOL
559 Nathan Abbott Way
Stanford, CA 94305
(650) 725-6369
pmalone@law.stanford.edu

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INTEREST OF *AMICI CURIAE*

Amici law professors, listed in the Appendix, are thirty academics who study intellectual property and innovation.[1] Their interest in this case stems from their professional academic interest in guiding the development of law in the way that most benefits society. *Amici* have no personal interest in the outcome of this case.

Amicus the American Antitrust Institute (AAI) is an independent, nonprofit organization devoted to promoting competition that protects consumers, businesses, and society. It serves the public through education, research, and advocacy on the benefits of competition and the use of antitrust enforcement as a vital component of national and international competition policy. The AAI has long recognized the important role that exhaustion doctrine plays in facilitating competition in product markets driven by intellectual property, including aftermarkets. *See, e.g.*, Brief for *Amicus Curiae* American Antitrust Institute in Support of Petitioners, *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (No. 06-937).

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[1] The parties have consented to the filing of this brief; their written consents are on file with the Clerk. No counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund its preparation or submission. No person other than the *amici* or their counsel made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

The Federal Circuit below strayed from this Court's guidance on core exhaustion issues and eviscerated important limits on patent holders' rights. This Court should restore those limits, which are necessary to protect the public interest.

A patent should provide only enough insulation from competition to incentivize innovation. Once a patentee has received his reward, this Court's precedent encourages public use and dissemination of patented articles through patent exhaustion doctrine, which limits a patentee's ability to control a patented article after placing it in the stream of commerce. Having authorized the first sale of a patented article, a patentee's rights in the subsequent use of that article are no greater than if it had never been patented.

The Federal Circuit below radically reconceptualized this longstanding doctrine as a mere presumption of authority, which conflicts with this Court's common-law precedent going back over 150 years. Under the Federal Circuit's reading, exhaustion doctrine is merely a default arrangement that a patentee can change with contract terms—or even unilateral pronouncements—not a hard-and-fast limit on a patentee's rights. But *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), clarified that any authorized sale exhausts patent rights. Moreover, any conditions pursuant to an authorized sale are properly enforced via contract, not patent law, provided that such conditions amount to valid agreements.

The Federal Circuit similarly lost sight of exhaustion's core purpose when it held that foreign

sales authorized by the U.S. patentee never exhaust U.S. patents. This holding clashes with this Court's opinion in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). *Kirtsaeng* rejected the idea that international copyright exhaustion implicates extraterritoriality and reaffirmed the common-law principles against restraints on alienation that animate both copyright and patent exhaustion. Furthermore, exclusive rights do not provide for market segmentation, and the concern below about access to medicines is misplaced. Effects on pharmaceuticals, if any, are properly addressed with pharmaceutical-specific legislation, not sweeping changes to patent law that would have ramifications for the free movement of all patented goods.

This Court should correct the Federal Circuit's erroneous interpretation of exhaustion doctrine by clarifying that any authorized sale triggers patent exhaustion, and that a patentee's remedies for violations of post-sale restrictions lie in contract, not patent law.

ARGUMENT

I. This Court Has Recognized That Exhaustion Is an Important, Longstanding Doctrine That Promotes Diffusion of Technology Through Channels of Commerce

The time-honored doctrine of patent exhaustion provides that once a patented article is sold by the patentee or someone authorized by the patentee, the patentee's rights in that article are spent. The purchaser may subsequently use or dispose of the article the same way he can dispose of his other, unpatented possessions. Exhaustion is deeply rooted

in common-law policies against restraints on alienation and double recovery, and it places important limits on the rights the public grants to patentees in exchange for their inventions. Aaron Perzanowski & Jason Schultz, *The End of Ownership: Personal Property in the Digital Economy* 159-60 (2016) ("Limiting patent holders to a single recovery also guards against the abuse that would likely occur if patent holders were granted ongoing control over products released into the stream of commerce[.]"); *see also Adams v. Burke*, 84 U.S. 453, 456 (1873) ("[T]he patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.").

A clear exhaustion rule promotes the alienability of patented articles and reduces transaction costs. Unlike clear, reliable property rights, idiosyncratic arrangements of rights that depend on what covenants or conditions an upstream seller has attached to a chattel impose high information costs on purchasers. *See* Zechariah Chafee, Jr., Comment, *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250, 1261 (1956); Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The* Numerus Clausus *Principle*, 110 Yale L.J. 1, 26-28 (2000). Consequently, the law has almost uniformly found personal property servitudes unenforceable. *See* Molly Shaffer Van Houweling, *The New Servitudes*, 96 Geo. L.J. 885, 906 (2008). Post-sale restrictions on patented articles present the same

concerns, and this Court has rejected them for the same reasons. *See Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917) ("[I]t must be recognized that not one purchaser in many would read such a notice, and that not one in a much greater number, if he did read it, could understand its involved and intricate phraseology . . . ."); *see also* Samuel F. Ernst, *Patent Exhaustion for the Exhausted Defendant: Should Parties Be Able to Contract Around Exhaustion in Settling Patent Litigation?*, 2014 U. Ill. J.L. Tech. & Pol'y 445, 472 (describing information costs associated with multiple royalty transactions).

Exhaustion doctrine also prevents patentees from extracting a patent royalty at multiple stages in a product's distribution chain, which would compensate them in excess of the societal benefit their inventions have provided. *See Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 513 (1917) ("If [a patentee's] discovery is an important one, his reward under such a construction of the law will be large, as experience has abundantly proved; and if it be unimportant, he should not be permitted by legal devices to impose an unjust charge upon the public in return for the use of it."). Patentees' double recovery of a patent rent, once when a patented article is first sold, and again when it is resold, is inconsistent with this Court's direction that "[patentees] are entitled to but one royalty for a patented machine." *Bloomer v. Millinger*, 68 U.S. 340, 350 (1863). Exhaustion doctrine arose to limit patentees' rights to those necessary to incentivize innovation. Patentees have substantial control over the first sale of a patented article, but once they have extracted one patent royalty, patent doctrine

encourages dissemination of the patented article to the public. *See Millinger*, 68 U.S. at 350 ("[p]atentees acquire the exclusive right to make and use, and vend to others to be used, their patented inventions for the period of time specified in the patent, but when they have made and vended to others to be used one or more of the things patented, to that extent they have parted with their exclusive right.").

This Court has recognized this affirmative policy on the free movement of goods as the rationale behind exhaustion in the context of both use and geographic restrictions. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) (emphasizing in the copyright context "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods"). Accordingly, this Court has consistently refused to enforce patentees' post-sale restrictions. *See, e.g.*, *Straus*, 243 U.S. at 500-01 (invalidating a price-fixing "license notice" attempting "to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest").

Similarly, this Court has recognized that geographic restraints on alienation offend the public's interest in dissemination of patented goods. *See Adams v. Burke*, 84 U.S. 453; *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659 (1895). In both *Adams* and *Keeler*, the patentees had assigned the rights to make, use, and sell patented articles to different manufacturers in different U.S. regions. Yet this Court held that when a purchaser bought patented articles from a manufacturer with rights in one

locality, and subsequently used or sold them in another manufacturer's locality, the second manufacturer had no rights against the user or reseller. *Keeler*, 157 U.S. at 666 ("[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place."); *Adams*, 84 U.S. at 456-57. The Court announced that "[t]he inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration," *Keeler*, 157 U.S. at 667. Furthermore, in *Kirtsaeng*, this Court held that copyright's first-sale doctrine cannot be read to incorporate geographic distinctions in light of the common-law policy against personal property servitudes. *Kirtsaeng*, 133 S. Ct. at 1363. This policy similarly drives patent law.

Furthermore, this Court has recognized that the constitutional underpinnings of and policy goals underlying exhaustion doctrine do not provide a market segmentation or price discrimination right. *Kirtsaeng*, 133 S. Ct. at 1371 ("But the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain."). Rather, market segmentation and price discrimination are properly enforced through contract law and legislation specifically tailored for those practices.

II. This Court Should Reject the Federal Circuit's Radical Reconceptualization of the Exhaustion Doctrine and Restore Patent Exhaustion to Its Proper Role in Accordance with Established Precedent

The Federal Circuit below abandoned exhaustion's long-standing limit restricting the rights of patentees to exercise downstream market control over patented articles released into the stream of commerce. It wholly reconceptualized exhaustion from a bedrock policy rejecting restraints on alienation to a mere "presumption" of "authority" which patentees can revoke at will. This Court should reject the Federal Circuit's unwarranted transformation, which vitiates exhaustion doctrine, and restore exhaustion as articulated by this Court.

The Federal Circuit's misunderstanding of exhaustion caused it to mistakenly hold that a patent grants to its owner unlimited power to exclude any and all uses of the patent so long as the restrictions are "within the scope of the patent grant"—contrary to this Court's consistent rejection of post-sale restraints to prevent patent exhaustion. In recasting this Court's precedent as supporting exhaustion only as a presumption of authority subservient to the purposes of antitrust, the Federal Circuit also short-changes the important public policies underlying exhaustion doctrine.

This Court should restore the exhaustion doctrine to its proper scope and ensure that patentees enjoy only those rights the law entitles them to.

A. This Court Should Correct the Federal Circuit's Interpretation of "Authority" in § 271, Which Evades This Court's Precedent

The Federal Circuit decided that the exhaustion doctrine is textually tied to the word "authority" in § 271 of the 1952 Patent Act, such that the question of what is and is not infringement depends only on what authority the patentee has granted. According to the Federal Circuit, "[i]f ordinary congressional supremacy is to be respected, exhaustion doctrine in the Patent Act must be understood as an interpretation of § 271(a)'s 'without authority' language." Pet. App. 24a. In its view, because "nothing in § 271(a) constrains the patentee's choices about whom to grant the required authority, if anyone, or about which acts . . . to authorize," no such constraints exist. Pet. App. 24a. This logic effectively eviscerates exhaustion, suggesting that any post-sale restriction, whether enforceable as a contract or not, defeats exhaustion.

This Court should not let stand the Federal Circuit's flawed reasoning, which ignores that exhaustion is grounded in nearly 150 years of this Court's precedent, not in the text of the 1952 Patent Act. The 1952 statute was enacted against the backdrop of this Court's established exhaustion doctrine. The fact that Congress did not choose to codify that doctrine does not mean that more than a century of judicial common law should be abandoned. *See Kirtsaeng*, 133 S. Ct. at 1363 ("'[W]hen a statute covers an issue previously governed by the common law,' we must presume that 'Congress intended to retain the substance of the common law.'" (alteration

in original) (quoting *Samantar v. Yousuf*, 560 U.S. 305, 320 n.13 (2010)); *United States v. Texas*, 507 U.S. 529, 534 (1993) ("In order to abrogate a common-law principle, the statute must 'speak directly' to the question addressed by the common law."). The patent exhaustion doctrine itself constrains the patentee's choices. The Federal Circuit cannot diminish this doctrine's independent legitimacy by ignoring its common-law origins any more than it is free to eliminate by judicial fiat patent law's doctrine of equivalents or the equitable defenses of laches and estoppel.

Though the Federal Circuit acknowledges that the "authority" in § 271(a) can come from sources other than the patentee, such as the patent law itself, it denies that the exhaustion doctrine could be such a source, simply because it is uncodified. Pet. App. 22a ("Nothing in the Act supersedes the § 271 requirement of authority from the patentee . . . ."). But ignoring patent principles simply because they are not codified would have eviscerated many of patent law's central doctrines, including patentable subject matter, the doctrine of equivalents, obviousness, and the presumption of validity, all of which began life as common-law creations.

The Federal Circuit's parsing of the word "authority" improperly reduces the exhaustion doctrine to a species of implied license. This Court has clarified that implied license is a separate defense from that of exhaustion, even under the 1952 Act. *See Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 637 (2008) ("[T]he question whether third parties received implied licenses is irrelevant because Quanta asserts its right to practice the patents based

not on implied license but on exhaustion."). Therefore, exhaustion must be more than just a presumption of authority with no independent force.

Properly interpreted, § 271(a)'s "without authority" refers to sales that the patentee has not consented to, or, in the case of sales by licensees, sales that explicitly violate license terms on which the authority to sell is conditioned. Whether a sale is "authorized" must be determined based on the facts known to the licensee when the sale was made. Good faith sales by licensees exhaust patent rights in the items sold. It is contract, not patent law that provides the appropriate remedy when the contract is breached after a licensee's good faith sale. Otherwise, even years after a sale, a purchaser could retroactively impose patent liability on a licensee by violating post-sale restrictions, leaving the licensee liable for patent infringement despite the licensee's good faith belief that the sale had complied with the license terms. Allowing post-sale facts to determine whether a sale was authorized to begin with would thus preclude licensees from making any "normal" or "final" sales free from patent infringement liability. Moreover, limiting the determination of authority to the facts known by licensees at the time of sale leaves patentees free to recover contract remedies for post-sale breach of contract terms so long as patentees contract appropriately to retain those remedies.

B. This Court Should Correct the Federal Circuit's Enforcement of Post-Sale Restraints to Abrogate Patent Exhaustion Because It Evades This Court's Precedent

The Federal Circuit's holding in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992),

reaffirmed en banc below, was contrary to Supreme Court precedent when it was decided. The *Quanta* Court's opinion further undermined *Mallinckrodt*'s foundation. This Court should explicitly overrule *Mallinckrodt*, clarify that any authorized sale triggers patent exhaustion, and preclude patentees from recovering patent remedies for purchasers' violations of post-sale use restrictions. Any recovery for such violations in authorized sales should necessarily be limited to contract remedies.

1. Since *Bloomer v. McQuewan*, 55 U.S. 539 (1852), this Court has acknowledged that when a patented item "passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. In numerous decisions applying the exhaustion doctrine prior to 1952, this Court ruled that post-sale restrictions could not prevent patent exhaustion. *See, e.g.*, *United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942) ("The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."); *see also* Pet. App. 106a-109a (Dyk, J., dissenting) (collecting cases); Pet. 12-13 (same). The Federal Circuit's view of exhaustion as a presumption within a patentee's control clashes with this Court's explanation that an authorized sale takes an article "outside" or "beyond the reach of the monopoly."

In discussing Supreme Court precedent below, the Federal Circuit misses the forest for the trees. Because it could not find in these cases an exact analog of the facts here at issue—a sale of a patented

article made subject to use restrictions that don't facially violate antitrust—the court refused to recognize that exhaustion doctrine applies more broadly, including to the factual circumstances in this case. Pet. App. 49a-56a. But it is not the role of the Federal Circuit to confine this Court's consistent rulings to their narrowest facts in order to unduly circumscribe the scope of exhaustion. In any event, the reasoning of this Court's exhaustion cases is not so limited.

Two examples are illustrative. First, in *Motion Picture Patents*, the Court held that the patentee could not, by way of a notice attached to the patented projector, require that it be used only with the patentee's own films (on which the patent had expired) on pain of patent infringement. *Motion Picture Patents*, 243 U.S. at 518. The court below, as it did in *Mallinckrodt*, distinguished *Motion Picture Patents* by relegating its holding solely to cases involving patent misuse. Pet. App. 53a-54a. But *Motion Picture Patents* emphasized longstanding policies, discussed above, against personal property servitudes and double recovery. It noted that patent law did not allow a patentee:

> to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid, to be imposed thereafter at the discretion of such patent owner. The patent law furnishes no warrant for such a practice, and the cost, inconvenience, and annoyance to the public which the opposite conclusion would occasion forbid it.

Motion Picture Patents, 243 U.S. at 516. Despite its facts, *Motion Picture Patents* cannot be viewed as a case pertaining only to patent misuse. Instead, the principles it discusses are broadly applicable to exhaustion cases.

Second, the Federal Circuit improperly dismissed this Court's principles, articulated in *Adams*, 84 U.S. 453, and *Keeler*, 157 U.S. 659, as pertaining only to the "unconditional" sales described in those cases, Pet. App. 29a, 36a, 50a-51a. Contrary to the Federal Circuit's interpretation, this Court has made clear that "the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine," *Adams*, 84 U.S. at 455, and that "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles," *Keeler*, 157 U.S. at 666. And as the dissent below points out, nineteenth century "conditions" on sale more often connoted conditions on title transfer, not conditions on use. Pet. App. 115a-116a (Dyk, J., dissenting).

2. This Court should reaffirm what it made clear in *Quanta*: common-law exhaustion precedent survived the enactment of the 1952 Patent Act.

In *Quanta*, LGE licensed Intel to make and sell components substantially embodying its patents, but disclaimed any license to Intel's customers to combine those components with non-Intel parts. *Quanta*, 553 U.S. at 623. This Court rejected LGE's patent infringement claims against Intel's customers because LGE had unconditionally authorized Intel's sales, notwithstanding LGE's attempted post-sale restriction. *Id.* at 636-37. *Lexmark*'s rule that

parties can freely forestall exhaustion through contract[2] cannot stand against this Court's robust articulation of exhaustion doctrine that "the initial authorized sale of a patented item terminates all patent rights to that item." *Id.* at 625.

First, it is clear throughout *Quanta* that this Court was relying on its own exhaustion precedent; it was not "interpret[ing] . . . § 271(a)'s 'without authority' language." Pet. App. 24a. The opinion opens with the declaration: "For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item." *Quanta*, 553 U.S. at 621. It does not even cite § 271. Thus, as recently as 2008, this Court cemented exhaustion as an independent, common-law doctrine that has been continuously applied for over a century. Exhaustion is not merely a gloss on the 1952 Act's text.

Second, while the court below cabined *Univis*'s holding to price-maintenance cases, Pet. App. 54a-55a, *Quanta* clarified that *Univis* applies more broadly. The *Quanta* Court made clear that "*Univis* governs this case," despite the absence of allegations of patent misuse or anticompetitive behavior in *Quanta*. *Quanta*, 553 U.S. at 631. As *Quanta* explains, *Univis* stands for the much broader proposition that an "authorized sale of an article which is capable of use only in practicing the patent

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[2] The court below relied on the parties' stipulation that the sticker notice at issue constituted a valid contract but did not independently determine whether the sticker notice was sufficient to create a valid contract.

is a relinquishment of the patent monopoly with respect to the article sold." *Id.* (quoting *Univis*, 316 U.S. at 249).

Third, the *Quanta* decision endorsed the principle that the exhaustion doctrine exists to broadly prohibit restraints on alienation. Though articulated in a part of the opinion discussing the exhaustibility of method patents, this Court recognized the "danger" that a contrary holding would permit an "end-run around exhaustion." *Quanta*, 553 U.S. at 630. It refused to accept a rule where, "although Intel is authorized to sell a completed computer system that practices the LGE Patents, any downstream purchasers of the system could nonetheless be liable for patent infringement," because such a rule would "violate the longstanding principle that, when a patented item is 'once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.'" *Id.* (quoting *Adams*, 84 U.S. at 457) (alteration in original) (emphasis omitted). This Court's policy concerns against personal property servitudes have equal force when applied to post-sale restrictions enforced via patent remedies because such restrictions also serve to restrain the downstream use of lawfully made and sold items.

3. While this Court in *Quanta* acknowledged the continuing validity of *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938), that case is consistent with overruling *Mallinckrodt*. *General Talking Pictures* merely stands for the unremarkable proposition that (1) a patent owner may place restrictions on a manufacturer-licensee as to who is authorized to purchase a patented product, and

(2) one who purchases from a licensee who is violating its license is as liable as the licensee.

In *General Talking Pictures*, the Transformer Company had a license to sell amplifiers only for home use—two other companies were granted exclusive rights to sell for commercial use. *Id.* at 125-26. Transformer Company, knowing that General Talking Pictures would use them commercially, nevertheless sold amplifiers to General Talking Pictures, which in turn knew that the sale violated Transformer Company's license. *Id.* at 126. The Court held, unsurprisingly, that Transformer Company was an infringer for violating its license. *Id.* The Court also held that "as Pictures Corporation ordered, purchased and leased [the amplifiers] knowing the facts, it also was an infringer." *Id.* The case does not stand for the proposition that a term in a license between the patentee and a licensee binds all subsequent purchasers in patent law.

Rather, the case is simply one in which the sale was not authorized. *Quanta*, 553 U.S. at 636 ("The Court [in *General Talking Pictures*] held that exhaustion did not apply because the manufacturer had no authority to sell the amplifiers for commercial use, and the manufacturer 'could not convey to petitioner what both knew it was not authorized to sell.'") (quoting *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 181 (1938)). That fact alone—that Transformer Company made an unauthorized sale—is enough to hold that exhaustion doctrine does not apply. In holding both parties liable for patent infringement, the Court emphasized the parties' knowledge that Transformer Company's sales violated its license. *Gen. Talking Pictures*, 305

U.S. at 126. Pictures Corporation was thus strictly liable because it purchased from Transformer Company, which was a direct infringer with respect to sales violating its license. *Id.* at 126-27.

The decision below improperly expanded *General Talking Pictures* to hold that patent liability can attach to downstream purchasers as well as manufacturer-licensees even in the case of a licensee's good faith sale. Pet. App. 26a ("It is undisputed and clear under Supreme Court precedent—most prominently, the 1938 decision in *General Talking Pictures*—that Lexmark would not have exhausted its patent rights in those cartridges, upon the manufacturing licensee's sale (the first sale), if a buyer with knowledge of the restrictions resold or reused them in violation of the restrictions."). *General Talking Pictures* does not speak to this issue—it was concerned with a scenario in which both the licensee and the purchaser knew that the sales at issue violated the patentee's license and were thus unauthorized. *Gen. Talking Pictures*, 305 U.S. at 127 ("As the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted to Transformer Company."). Unsurprisingly, the Court held Pictures Corporation liable, "because it ha[d] used the invention without license to do so," finding it "in no better position than if it had manufactured the amplifiers itself without a license." *Id.*

Moreover, the Federal Circuit's concern below, that practicing entities would be disadvantaged by a rule that enforces patent remedies against licensees, but not against those who purchase directly from

patentees, is misplaced. *See* Pet. App. 44a-45a. There is a perfectly good reason for this Court to enforce patent remedies against licensees who make and sell patented products, but not against simple buyers who purchase from a patentee. A manufacturer-licensee must obtain a patent license, and that license necessarily controls the number of products the licensee can put into the stream of commerce. Otherwise, any patentee who turned to a third party to manufacture its goods would lose control over how many of the patented goods were made and sold at all. If the patentee itself makes the goods and sells them, by contrast, it has by definition chosen to release those goods, and only those goods, into the market.

C. This Court Should Correct the Federal Circuit's Conception of Post-Sale Restraints, Which Mistakes the Place of Exhaustion Within the Broader Doctrine

1. The Federal Circuit Improperly Subordinated Exhaustion Doctrine to Contract and Antitrust Law

The Federal Circuit repeatedly states that post-sale restrictions must be "otherwise lawful" to be enforceable, Pet. App. 19a, 25a, 26a, 33a, 40a, 55a, 62a, by which it means that the restrictions by their terms must comport with, among other things, ordinary commercial and antitrust law, *id.* at 27a (citing *Mallinckrodt*, 976 F.2d at 703). But subordinating the determination of the limits of a patentee's rights to these other doctrines denies that the exhaustion doctrine has an independent public policy justification. Furthermore, the existence of a patent appears to influence the Federal Circuit's

interpretation of these other doctrines in a way that unnecessarily favors the patentee and harms the public interest.

a. Preventing patentees from violating contract or antitrust law when they impose post-sale restrictions may ensure that the goals of those other laws are served. But this Court should reaffirm that the exhaustion doctrine's purpose extends beyond promoting competition under the antitrust laws and allowing parties to make enforceable commitments under contract law. Exhaustion limits the rights of patentees to only what is required to incentivize innovation and avoids restraints on alienation that would prevent patented goods from diffusing through the channels of trade to the public benefit. Contract and antitrust law do not suffice to uphold the rationale of exhaustion.

Thus, this Court should continue to recognize exhaustion's importance beyond antitrust and commercial policy, and should not allow patentees to encumber patented goods with post-sale use restrictions enforceable via patent remedies. As the *Keeler* Court articulated, allowing such restrictions produces consequences representing an "inconvenience and annoyance to the public" that "are too obvious to require illustration." *Keeler*, 157 U.S. at 667.

The Federal Circuit's interpretation would allow a patentee to unilaterally impose any restriction it wished on any product it sold, and to have that restriction bind the first purchaser, and any subsequent purchasers, as a matter of patent, not contract law. The interpretation below would permit a patentee to sell its pharmaceuticals "only to be

swallowed whole," or a radio "only for use on Sundays," and sue someone who splits his pills or forgets the day of the week for patent infringement—even willful patent infringement. Less fancifully, a patentee could sell a car with a "no resale" restriction and shut down the market for used cars. Or, more analagous to the facts here, a patentee could sell a reusable product with a restriction on reuse, and sue anyone who recycled the product for patent infringement. Under the Federal Circuit's theory, even when the patentee authorizes the first sale of a patented good, he may sue all downstream purchasers for violating any post-sale restriction, even when a purchaser has no notice of the restriction. That is the consequence of treating a violation of any post-sale restriction as patent infringement (a strict liability offense), rather than simply a contractual breach.

It is no answer to say that patentees will not abuse this power and will impose only reasonable restrictions. Whether or not this Court considers a requirement to throw away a perfectly functional product rather than refilling it reasonable, a law that depends for its legitimacy on plaintiffs choosing not to enforce it is unsound—causing "uncertainty," "selective enforcement," and "disrespect" for the law. *Kirtsaeng*, 133 S. Ct. at 1366.

b. The Federal Circuit below enforced Lexmark's post-sale restrictions without even determining whether there was a valid contract between the parties. This exposes another danger of the Federal Circuit's revisionist theory of exhaustion doctrine: patentees may enlist the federal courts to grant powerful patent law remedies based on unilateral

post-sale restrictions otherwise unenforceable under contract law.

The Federal Circuit relied on the parties' stipulation that notice was adequate and there was an enforceable contract. Pet. App. 11a, 12a, 14a, 60a. However, it did not independently analyze whether a valid contract existed, and it did not acknowledge that notice alone is not enough to create a valid contract—at a minimum, a meaningful manifestation of assent is also required. *See* Mark R. Patterson, *Must Licenses Be Contracts?: Consent and Notice in Intellectual Property*, 40 Fla. St. U. L. Rev. 105, 123-24 (2012) (discussing the invalidity of *Mallinckrodt*'s label license as a contractual matter); *see also UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1182-83 (9th Cir. 2011) (holding that a restrictive label license attached to a promotional CD was in fact a title transfer subject to first-sale doctrine because merely "accept[ing]" an unsolicited item did not constitute "acceptance" of the license terms). The Federal Circuit has recognized elsewhere that a "label license" is subject to scrutiny under ordinary contract law principles. *See, e.g.*, *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Co.*, 123 F.3d 1445, 1453 (Fed. Cir. 1997) ("[A] seller's intent, unless embodied in an enforceable contract, does not create a limitation on the right of a purchaser to use, sell, or modify a patented product . . . ."). But the Federal Circuit decided *Lexmark* based on notice alone, without analysis even of which state's contract law would govern.

The Federal Circuit's misguided approach would permit precisely the sort of restraint on alienation against which this Court has repeatedly warned. It

would impose patent remedies on not only the first buyer, but also on the world at large. This approach should be rejected. At most, where a patentee has a valid contract, its remedy for violation of post-sale restrictions is limited to contract law.

c. As with contract law, the Federal Circuit's focus on the "scope of the patent" distorts its analysis of post-sale restrictions under antitrust law. This Court should recognize that the patent should play no role in the antitrust analysis if the patent rights are exhausted. Even in cases where the patent is not exhausted, this Court has recently affirmed that whether conduct is within the scope of the patent is partly a function of antitrust law. *Fed. Trade Comm'n v. Actavis, Inc.*, 133 S. Ct. 2223, 2231 (2013) ("[P]atent and antitrust policies are both relevant in determining the 'scope of the patent monopoly'—and consequently antitrust law immunity—that is conferred by a patent.").

2. This Court Should Reaffirm That Contract Remedies Adequately Protect the Post-Sale Interests of Patent Owners

The Federal Circuit's approach to exhaustion is contrary to this Court's frequent instruction that contract law provides the appropriate and adequate remedies to protect the post-sale interests of patent owners where there is a valid contract.

This Court first identified contract law as the proper framework to enforce post-sale use restrictions in *Keeler*:

> Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question

> before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.

Keeler, 157 U.S. at 666. Quoting that exact language, this Court in *Quanta* indicated its continued understanding that contracts would be the appropriate remedy. *Quanta*, 553 U.S. at 637 n.7 ("[T]he authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages." (citing *Keeler* with approval)); *see also Motion Picture Patents*, 243 U.S. at 509 ("The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question outside the patent law . . . .").

To be sure, contract remedies presuppose a valid contract. They also require privity and generally do not allow parties to obtain injunctions. Those are reasonable limits to impose on patentees seeking to burden downstream purchasers with significant transaction costs and restraints on trade by reaching beyond the patent law limits. And contract remedies put patentees in no worse a position post-sale than the many commercial entities who conduct business without the benefit of a statutory monopoly.

If this Court does not correct the Federal Circuit's misunderstanding of the relationship between patent law and other doctrines, patentees

will be able to stifle innovation by threatening or bringing patent suits for violations of any post-sale restriction. Patentees could obtain powerful patent remedies unavailable under contract law, even where such post-sale restrictions fail to constitute a valid contract.

III. This Court Should Reaffirm Its Precedent and Recognize That International Exhaustion Does Not Implicate Extraterritoriality

The Federal Circuit's holding in *Lexmark* restricting exhaustion to sales that occur within the physical territory of the United States is inconsistent with this Court's precedent rejecting geographic limits on exhaustion. *See* Pet. App. 104a. The opinion also mistakenly concluded that international exhaustion implicates extraterritoriality. *See id.* The Federal Circuit failed to recognize that patent exhaustion and copyright first-sale are rooted in the same common-law tradition, arise from the same constitutional clause, and share the same important policy rationales.

1. Since patent law lacks a statutory pronouncement limiting exhaustion to domestic sales, patent exhaustion is even more informed by the common-law tradition than copyright's codified first-sale doctrine. But the Federal Circuit ignored the significance of that tradition for exhaustion, reinterpreting and avoiding this Court's precedent.

The decision below relies on a misreading of a single case, *Boesch v. Graff*, 133 U.S. 697 (1890). *See, e.g.*, John A. Rothchild, *Exhausting Extraterritoriality*, 51 Santa Clara L. Rev. 1187, 1198-201 (2011) (explaining the Federal Circuit's

misinterpretation of *Boesch* and collecting contrary precedent). The *Boesch* patentees held patents on a lamp-burner in both Germany and the United States. *Boesch*, 133 U.S. at 698-99. The defendant purchased lamp burners in Germany from Hecht, who had no license from the patentee, but was entitled to make and sell them in Germany as a "prior user" under German law. *Id.* at 701-02. The Court concluded that purchasers from Hecht would be liable for patent infringement if they resold the lamp burners in the United States. *Id.* at 703.

Thus, *Boesch* is not an exhaustion case: it did not involve a sale authorized by the patentee, but rather sales by a third party invoking a distinctly German prior use right, which could not subsequently preclude the patentee from collecting a royalty when the article was sold in the United States. *See LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009) ("The present case, in contrast, involves an *authorized* sale made pursuant to a license under a United States patent. *Boesch* does not speak to this issue."). *Boesch* is perfectly consistent with international exhaustion, provided that the U.S. patent owner has authorized the sale abroad.

Furthermore, the decision below ignored this Court's rejection in *Kirtsaeng* of the notion that an international first-sale in copyright entailed extraterritorial application of U.S. law. *Kirtsaeng*, 133 S. Ct. at 1363. It ignored *Kirtsaeng*'s recognition that commentators as far back as the fifteenth century had "emphasize[d] the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods," *Kirtsaeng*, 133 S. Ct. at 1363 (citing 1 E. Coke,

Institutes of the Laws of England § 360, at 223 (1628) (commenting on Littleton, Treatise on Tenures (circa 1480)), and that "[t]he common-law doctrine makes no geographical distinctions," *id.* It neglected to consider that "a geographical interpretation would fail to further basic constitutional copyright objectives, in particular 'promot[ing] the Progress of Science and useful Arts,'" *id.* at 1364 (quoting U.S. Const. art. I, § 8, cl. 8) (alteration in original), dismissing *Kirtsaeng* without considering the shared common-law origins of patent and copyright law. Pet. App. 68a ("*Kirtsaeng* says nothing about patent law."). In doing so, the Federal Circuit inexplicably abandoned its position that "copyright cases inform similar cases under patent law." *LifeScan Scotland, Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1375 n.9, 1376 (Fed. Cir. 2013) (citing *Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 13-14 (1913)) (looking to *Kirtsaeng* and the "common policies underlying patent exhaustion and the first-sale doctrine" to hold that an authorized transfer of title exhausted the patent even when the item was given away).

The international exhaustion rule announced below undermines *Kirtsaeng* and reaches precisely the "absurd result" in patent law that the *Kirtsaeng* Court was determined to prevent under copyright law—namely, a rule where "the copyright owner can exercise downstream control even when it authorized the import or first sale." *Kirtsaeng*, 133 S. Ct. at 1366. The Court was concerned that such a rule "would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software" where the car was manufactured abroad with software components purchased from foreign suppliers. *Id.* at

1365. Without international patent exhaustion, the same "absurd result" would persist in patent law. It would even affect many of the same products, such as cars, which contain patented as well as copyrighted components. Nothing justifies categorically inconsistent treatment of international sales under patent and copyright law given that the two regimes often govern the same products.

2. Contrary to the Federal Circuit's claim below, patent law is not especially territorial. *See* Pet. App. 86a. The territorial nature of patent law is hardly unique: "copyright laws do not have any extraterritorial operation," either. 4 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 17.02, at 17-18 (2012). *Kirtsaeng* rejected the view that international exhaustion requires extraterritorial application of U.S. copyright law, holding the Copyright Act "applicable" to anything "subject to protection" under it, including "unpublished works 'without regard to the nationality or domicile of the author,' and works 'first published' in any one of the nearly 180 nations that have signed a copyright treaty with the United States." *Id.* at 1359 (emphasis omitted) (quoting 17 U.S.C. §§ 101, 104 (2006)). There is no basis for a different conclusion under patent law.

Moreover, international patent exhaustion does not entail extraterritorial application of U.S. law because it does not regulate foreign sales or foreign conduct—it merely affects how subsequent U.S. activities are regulated. *See LG Elecs., Inc.*, 655 F. Supp. 2d at 1047 (collecting Supreme Court and circuit cases). Additionally, other areas of patent law recognize that foreign conduct can affect subsequent

U.S. activities. For example, the novelty requirement for patentability provides that foreign use or sale of an invention can foreclose an inventor's ability to obtain U.S. patent rights. 35 U.S.C.A. § 102(a) (West 2015). Those foreign uses or sales are not themselves regulated, but nonetheless affect how subsequent U.S. patent applications are regulated.

3. As discussed above, exclusive rights do not necessarily include a right to price discriminate or segment markets. *See Kirtsaeng*, 133 S. Ct. at 1371. Although price discrimination across different markets may be useful in some circumstances, it may be harmful to consumers in other circumstances, and raises policy concerns that patent exhaustion is ill-suited to address. Eliminating international exhaustion to enable price discrimination would be a crude approach to a nuanced issue and would have ramifications for the free movement of patented goods across all sectors.

The Federal Circuit's concern about international patent exhaustion's impact on the availability of pharmaceutical products at lower prices outside the United States is misplaced. *See* Pet. App. 100a-101a. First, not all patients in developing countries benefit from price discrimination—even where there are bans on exporting drugs from developing countries, pharmaceutical companies still sometimes choose to sell drugs at high prices to the minority of patients who can afford to pay those prices. Sean Flynn, et al., *An Economic Justification for Open Access to Essential Medicine Patents in Developing Countries*, 37 J.L. Med. & Ethics 184 (2009) (demonstrating that if a national market is characterized by high levels of inequality, a profit-maximizing firm will cater to the

higher end of the market); *see also* Ariel Katz, *The First Sale Doctrine and the Economics of Post-Sale Restraints*, 2014 B.Y.U. L. Rev. 55, 80-81 (citing F. M. Scherer & Jayashree Watal, *Post-TRIPS Options for Access to Patented Medicines in Developing Nations*, 5 J. Int'l. Econ. L. 913 (2002)).

And whatever the impact of price discrimination on medicine, in many industries, such as software, price discrimination may not carry the same benefits, or may even be harmful. It would thus be unsound to allow concerns about one industry to determine the rule for all of patent law, especially when the industry is not representative of the economy and other, more tailored solutions are available. Disallowing international exhaustion to enforce price discrimination for pharmaceuticals would privilege that industry at the expense of all other industries that would not benefit from such a rule.

The pharmaceutical industry and the ability of others to reimport pharmaceuticals are already heavily regulated. *See, e.g.*, 21 U.S.C.A. § 381(d) (West 2016), *amended by* 21st Century Cures Act, Pub. L. No. 114-255, § 3101(a)(2)(W)(i)-(ii), 130 Stat. 1033, 1156-57 (2016) (restricting drug reimportation); 21 U.S.C.A. § 384 (West 2016) (restricting importation of prescription drugs). If additional protections are needed for any single industry, such protection should be achieved through legislation tailored for such purpose. Indeed, the pharmaceutical industry has proven itself capable of lobbying Congress for the pharmaceutical-specific legislation that represents a more appropriate solution to the access to medicines problem. Jay P. Kesan & Andres A. Gallo, *The Political Economy of*

the Patent System, 87 N.C. L. Rev. 1341, 1360-66 (2009) (demonstrating the influence of the pharmaceutical lobby).

Even without specific exceptions for industries such as the pharmaceutical industry, contract remedies can adequately enforce price discrimination across different markets. As this Court has held with respect to the enforcement of post-sale restrictions, the appropriate remedy to enforce price discrimination lies in contract, not patent law. *Keeler*, 157 U.S. at 666.

4. This Court should clarify that the same rules apply to international exhaustion as to domestic post-sale restrictions: patentees may recover only contract remedies for the breach of any restriction encumbering a patented item following its authorized sale.

Asserting that the Federal Circuit's complete rejection of international exhaustion was erroneous, the Solicitor General has suggested that this Court adopt international exhaustion as a default rule that applies unless a patentee expressly reserves rights to the contrary. Brief for the United States as *Amicus Curiae* on Petition for Writ of Certiorari 15. It follows that any such reservation of rights must be enforced under contract, not patent law, because enforcement via patent remedies would effectively eviscerate international exhaustion. *See Quanta*, 553 U.S. at 637 n. 7 ("[T]he authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even

though exhaustion operates to eliminate patent damages.").

If such reservations of rights were enforced through patent remedies, patentees would have little incentive not to reserve rights in full. By reserving such rights, patentees could preserve their ability to recover large patent remedy sums from all purchasers who violated the reserved rights, regardless of whether the patentee authorized the sales at issue. Enforcing patentees' reservations of rights with patent remedies would thus perpetuate the categorical elimination of international exhaustion that the Solicitor General rejected as erroneous. *See* Brief for the United States as *Amicus Curiae* on Petition for Writ of Certiorari 20. This Court should therefore recognize that any post-sale control of a patented item pursuant to an authorized sale abroad must be enforced through contract, not patent law.

CONCLUSION

Consistent with its precedent, this Court should reaffirm that patentees cannot enforce post-sale restrictions with patent remedies. Rather, patentees can enforce post-sale restrictions only with contract remedies, and only when such post-sale restrictions constitute a valid contract.

Similarly, this Court should recognize that the same common-law principles govern domestic and international patent exhaustion. Exhaustion allows patentees to enforce post-sale restrictions on patented goods only through contract, not patent law, regardless of the location of the first sale.

Respectfully submitted,

Phillip R. Malone
Counsel of Record
Jef Pearlman
JUELSGAARD
INTELLECTUAL
PROPERTY AND
INNOVATION CLINIC
MILLS LEGAL CLINIC AT
STANFORD LAW SCHOOL
559 Nathan Abbott Way
Stanford, CA 94305
(650) 725-6369
pmalone@law.stanford.edu

January 24, 2017

APPENDIX

Amici curiae law professors are listed below. Affiliation is provided for identification purposes only, and the brief does not reflect the views of the listed institutions.

John R. Allison
Spence Centennial Professor
Professor of Intellectual Property Law
McCombs Graduate School of Business
University of Texas at Austin

Timothy K. Armstrong
Professor of Law
University of Cincinnati College of Law

Margo A. Bagley
Asa Griggs Candler Professor of Law
Emory University School of Law

Jeremy W. Bock
Assistant Professor of Law
Cecil C. Humphreys School of Law
The University of Memphis

Dan L. Burk
Chancellor's Professor of Law,
University of California, Irvine, School of Law

Michael A. Carrier
Distinguished Professor
Rutgers Law School

Ralph D. Clifford
Professor of Law
University of Massachusetts School of Law

Samuel F. Ernst
Assistant Professor
Dale E. Fowler School of Law
Chapman University

Stefania Fusco
Senior Lecturer
Note Dame Law School

Shubha Ghosh
George Young Bascom Professor in Business Law
Associate Director, INSITE
University of Wisconsin Law School

Amy Kapczynski
Professor of Law
Yale Law School

Ariel Katz
Associate Professor
Innovation Chair, Electronic Commerce
University of Toronto

Edward Lee
Professor of Law
Director, Program in Intellectual Property Law
Chicago-Kent College of Law

Mark A. Lemley
William H. Neukom Professor of Law
Director, Stanford Program in Law, Science, and Technology
Stanford Law School

Yvette Joy Liebesman
Professor of Law
Saint Louis University School of Law

Orly Lobel
Don Weckstein Professor of Employment and Labor Law
Faculty Member, Center for Intellectual Property & Markets
University of San Diego

Brian J. Love
Assistant Professor
Co-Director, High Tech Law Institute
Santa Clara University School of Law

Glynn Lunney
Professor of Law
Texas A&M University School of Law

Michael J. Madison
Professor of Law
Faculty Director, Innovation Practice Institute
University of Pittsburgh School of Law

Walter Matysik
Associate Provost
Adjunct Professor
Manhattan College

Stephen McJohn
Professor of Law
Suffolk University Law School

Mark P. McKenna
Associate Dean for Faculty Research and Development
Professor of Law and Notre Dame Presidential Fellow
Notre Dame Law School

Tyler T. Ochoa
Professor of Law
High Tech Law Institute
Santa Clara University School of Law

Mark R. Patterson
Professor of Law
Fordham University School of Law

Aaron Perzanowski
Professor of Law
Case Western Reserve University School of Law

Sarah R. Wasserman Rajec
Assistant Professor
William & Mary Law School

John A. Rothchild
Associate Professor
Wayne State University Law School

Pamela Samuelson
Richard M. Sherman Distinguished Professor of Law
Professor of School Information
Director, Berkeley Center for Law & Technology
University of California, Berkeley

Kurt M. Saunders
Professor of Business Law
California State University, Northridge

Jessica Silbey
Professor of Law
Northeastern University School of Law

RECORD AND BRIEFS

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In The
Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF *AMICUS CURIAE* INTERDIGITAL, INC. IN SUPPORT OF RESPONDENT

DAVID S. STEUER
Counsel of Record
MICHAEL B. LEVIN
MAURA L. REES
WILSON SONSINI GOODRICH & ROSATI
650 Page Mill Road
Palo Alto, CA 94304
(650) 493-9300
dsteuer@wsgr.com

ANDREW G. ISZTWAN
INTERDIGITAL, INC.
200 Bellevue Parkway
Suite 300
Wilmington, DE 19809

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INTEREST OF *AMICUS CURIAE*[1]

InterDigital, Inc. is a Pennsylvania corporation with headquarters in Wilmington, Delaware. It was founded in 1972 with the objective of developing new and innovative wireless technologies. It became a publicly traded company in 1981, and is now a significant commercial research and engineering organization. InterDigital, Inc. and its affiliates (hereinafter "InterDigital") have approximately 350 employees, about half of whom are engineers.

For over four decades, InterDigital has been a pioneer in mobile technology and a key contributor to global wireless standards. InterDigital does not manufacture devices; instead it has chosen to focus on innovation through advanced research, often collaborating or partnering with other research-focused organizations on specific projects. InterDigital's R&D efforts have resulted in the company owning a portfolio of approximately 20,000 patents and patent applications, spanning some 50 jurisdictions worldwide, over 85% of which were developed in-house. The primary source of InterDigital's revenue comes from the royalties received from licensing its worldwide portfolio of patents developed by the company's scientists and engineers. InterDigital's past and current licensees have

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[1] The parties have consented to the filing of this *amicus* brief. No counsel for a party authored this brief in whole or in part. No party, counsel for a party, or any person other than *amicus* and its counsel made a monetary contribution intended to fund the preparation or submission of this brief. The parties were given timely notice of intent to file this brief.

included prominent companies in the mobile wireless space, such as Apple, Samsung, Sony, Panasonic, RIM/Blackberry, HTC, Sanyo, NEC, and Sharp. InterDigital's constant commitment to innovation, and its particular focus on developing new and innovative wireless telecommunication standards, has benefitted markets, technology, and consumers around the globe.

InterDigital's experience in licensing a large global patent portfolio comprised of patents from many countries around the world gives it a unique perspective on the issues of international exhaustion raised in this appeal. The well-understood default rule is that foreign sales do not exhaust a domestic U.S. patent. Patent rights are territorial, and industry patent licensing practices reflect this fact. A new regime of international patent exhaustion would introduce significant uncertainty into established licensing practice, and, in its most extreme form, would have the potential to allow foreign countries to dismantle U.S. patent protection and eviscerate intellectual property rights held by U.S. companies. The United States has a strong interest in preventing foreign interference in the operation of its laws, and the presumption against international exhaustion of U.S. patents should be maintained.

SUMMARY OF ARGUMENT

Exhaustion of U.S. patents does not occur upon a sale made outside the United States. A regime of

international patent exhaustion would contravene the presumption against extraterritoriality that exists in patent law. The territorial nature of patent laws allows individual countries to exercise sovereignty in determining the nature and extent of the exclusive rights granted to patent owners. Undermining the rule against international patent exhaustion has the potential to significantly interfere with national sovereignty, allowing foreign countries to exercise unwarranted control over U.S. patent rights, to the detriment of U.S. patent owners and the nation's innovation economy. It would be imprudent to venture down a path that could give foreign countries – which may be economic competitors at best and hostile adversaries at worst – the ability to dictate terms on which patented goods can be imported into and sold in the United States.

Further, the Court's ruling in this case should be limited to the factual situation presented: a sale of a product made by the patent owner with license restrictions of the type imposed by Lexmark. In particular, the situation where the seller of a patented product is not the patent owner but rather a ***licensee*** of the patent owner is not presented in this appeal. There are many possible permutations of situations in which a foreign sale by a party who is not the patent owner may or may not be considered to be "authorized" by the patent owner, or may be authorized only to a certain extent. These factual circumstances are not before the Court, and a ruling in this case should be carefully tailored to avoid unintended and unwarranted effects

on how its holding could be said to apply in other situations.

ARGUMENT

I. U.S. Patent Law Does Not Have Extraterritorial Effect

The U.S. Patent Act does not have exterritorial effect, a legal principle that has been repeatedly confirmed in case law. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972), *superseded by statute on other grounds*, Patent Law Amendments Act of 1984, Pub. L. No. 98-622, 98 Stat. 3383, as recognized in *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007); *Carnegie Mellon Univ. v. Marvell Tech. Group Ltd.*, No. 2014-1492, 2015 U.S. App. LEXIS 13622, at *52 (Fed. Cir. Aug. 4, 2015) ("the patent laws, like other laws, are to be understood against a background presumption against extraterritorial reach."). By its express terms, the Patent Act is applicable "within the United States." 35 U.S.C. § 271(a). Thus, courts have been clear that U.S. patents do not have extraterritorial effect, and U.S. patent law generally does not provide for infringement liability for sales, manufacture, or use of the patented invention wholly outside the United States.

In light of the presumption against extraterritoriality, it would be inconsistent to introduce a rule of international patent exhaustion in the case of sales outside the United States made by the patentee. Because a patentee is not entitled to obtain damages for

infringement of U.S. patents based on entirely foreign activities, a foreign sale by the patent owner should not exhaust U.S. patent rights. *See* AIPLA Br. at 24 ("If a claim of infringement of a U.S. patent does not apply to extraterritorial uses, and the patentee is not entitled to receive a royalty under the U.S. patent for a non-U.S. sale, then an extraterritorial sale by the patentee cannot eviscerate its U.S. patent rights by triggering exhaustion."). U.S. patent laws are not applicable to foreign sales, so foreign sales by the patentee should not exhaust U.S. patent rights.

Under the Paris Convention, each country's patent system is distinct, and may provide for different rights and remedies. Resp. Br. at 41-42. The territorial nature of patent laws significantly affects how patent owners develop their portfolios. In order to obtain patent protection across jurisdictions, patent owners often apply for and obtain patents in multiple countries. This is true for InterDigital, which owns patents and patent applications in over 50 countries. In the case of a patent owner with a large portfolio of patents issued in dozens of countries, a sale by the patent owner in one country should not presumptively exhaust anything more than patent rights granted in the country where the sale occurred, to the extent provided for in that country's law. While a patent owner may choose to grant broader geographical rights in connection with a foreign sale (such as a right of U.S. importation), it should not be deemed to have done so absent express evidence that such a grant was intended.

InterDigital agrees with the position of the Government in its *amicus* brief that patent laws are territorial, and that international exhaustion is therefore not automatically triggered by a foreign sale by a patent owner. U.S. Br. 2-3; 31-32. However, the United States' position that international exhaustion should be presumed unless the patent holder reserves U.S. patent rights is not well supported. *Id.* at 23. Rather, the presumption should be against international exhaustion in the case of a foreign sale, except where the patent holder has evidenced an intention to affirmatively grant U.S. patent rights. The rule proposed by the Government would not be consistent with the presumption against extraterritorial application of U.S. patent laws. *See* Resp. Br. 55-56. Moreover, there are sure to be many existing agreements where sellers of goods have not expressly reserved U.S. patent rights in the context of foreign sales, because no such reservation has previously been required to prevent exhaustion. Such a rule certainly should not be applied after the fact.

Instituting a new rule of international patent exhaustion would also upset the settled expectations of U.S. companies that have conducted their businesses, and negotiated countless agreements, based on existing law that does not recognize international exhaustion. InterDigital has operated its business, including decisions about foreign patent filings, based on the presumption against extraterritoriality and the expectation that foreign sales do not exhaust U.S. patent rights. Other *amici* have also emphasized the ways in

which U.S. companies have structured their business dealings in reliance on the law that foreign sales do not exhaust U.S. patents, and the important policy considerations that are effected by this rule. Licensing Execs. Soc'y Br. 14-15, AIPLA Br. 27-28. As noted by Lexmark, the Court "should be wary of upsetting settled expectations." Resp. Br. at 24.

II. A Broad and Unconstrained Rule of International Exhaustion Threatens to Give Foreign Countries Unprecedented Control over U.S. Patent Rights

Certainly, foreign countries should not be permitted to unilaterally dictate when products made abroad can be imported and sold in the United States under the U.S. patent law, and under what terms. Yet the most extreme formulations of international exhaustion have the potential to bring about exactly this result.

The following example illustrates the dangers of a broad and unconstrained rule of international exhaustion. Assume that a foreign country decides that a particular product is important to its economic or other national interests, and that its local industry for that product must be protected. The foreign country therefore provides in its laws (whether by legislation, executive action, regulatory proceedings, or judicial decisions) that local manufacturers in that country are entitled to free or nominal-cost licenses for all necessary rights to make and sell the product at issue. The

foreign country then declares that companies, including U.S. companies, must grant free or nominal-cost licenses to local manufacturers under their patents in that country.

Sales made under such licenses could hardly be considered "authorized" sales that could exhaust U.S. patent rights. At most, such a law could affect only local patent rights granted in that foreign country. Yet the most extreme formulations of international exhaustion, to the effect that "all authorized sales anywhere should always result in exhaustion," could be seen to sweep in sales made under such circumstances. This could not possibly be a proper application of U.S. patent exhaustion. Such a result would not only be contrary to law, but would seriously harm U.S. interests by handing over control of U.S. patent law to foreign powers that have every incentive to support their own interests over those of the United States. A broad-based rule of international patent exhaustion for U.S. patents would open the floodgates for foreign countries seeking to advantage their local industries at the expense of U.S. patent owners.

Further, if foreign sales occurring under the circumstances in this example were to be deemed to trigger U.S. patent exhaustion, then U.S. companies owning foreign patents would be placed in an untenable position. They could either (1) run the risk that foreign governments will devalue not only their foreign patents, but will effectively destroy their U.S. patent protection as well by providing for nominal-royalty or royalty-free licenses for foreign sales that would

exhaust U.S. patent rights; or (2) refrain from filing for patents in foreign countries, and divest or abandon the foreign patents they currently own, in order to avoid such an outcome. Discouraging U.S. companies from protecting their inventions abroad would be incompatible with sound U.S. economic policy, which should seek to strengthen U.S. business and the ability of U.S. companies to compete internationally.

Recent actions by some countries demonstrate that such concerns are not merely theoretical. Countries such as Brazil, Thailand, and India have required compulsory licenses for certain pharmaceutical patents and/or enacted limits on patent protection for pharmaceuticals. *See* Donald Harris, *TRIPS After Fifteen Years: Success or Failure, as Measured By Compulsory Licensing*, 18 J. Intell. Prop. L. 367 (2011). In the mobile wireless space, InterDigital has experienced legal actions in foreign countries that have used local laws in an effort to significantly devalue its patents issued in those countries. Developing countries in particular often have legal systems and/or governments that do not apply Western standards of due process, do not have an independent judiciary, do not value or enforce intellectual property rights to the same degree as in the United States or other developed countries, and do not respect intellectual property rights held by U.S. companies. As a result, foreign governments have the ability to control terms of sale occurring in their countries, in ways that are thoroughly inconsistent with U.S. legal principles.

The court of appeals correctly recognized this danger in rejecting the position expressed by the Government in its *amicus* brief that exhaustion from foreign sales should always occur unless the patent owner expressly reserves its U.S. patent rights:

> A U.S. patentee that wishes to reserve its U.S. rights may not be able to do so. For a foreign sale, the required reservation is an act in a foreign country. And the foreign sovereign, or local governments in the country, may prohibit sellers from stating reservations of rights that would make importation into and sale in the United States more difficult.

Lexmark Int'l, Inc. v. Impression Prods., 816 F.3d 721, 772-773 (Fed. Cir. 2016). Because this Court's precedent strongly disfavors "projecting U.S. patent rights into foreign sovereigns' territories," the court of appeals concluded that "we correspondingly reject the claims of others to such control over our markets." *Id.* at 773.

Notably, the Government's position requiring reservation of U.S. patent rights in order to avoid exhaustion is supported by Huawei Technologies, a large Chinese manufacturer of electronics products headquartered in Shenzhen, China. Huawei Br. at 1. In its *amicus* brief, Huawei echoed the Government's argument: "While it is reasonable to treat an unconditional foreign sale as implicitly exhausting U.S. patent rights, patentees should be able to preserve those rights with an express reservation." *Id.* at 10. Yet, Huawei offers no response to the concern identified by the court of

appeals that a local government in a foreign country could seek to forbid such reservations of rights for sales occurring within its borders.

If sales mandated by foreign governments, which may have interests antagonistic to those of the United States, were allowed to have exhaustive effect on U.S. patent rights, it would be tantamount to handing over the crown jewels of America's innovation economy to foreign interests. The territorial nature of patent law does not permit such a result, and in no event should international exhaustion be used as a stepping stone on this dangerous path.

III. *Kirtsaeng* Is Not On Point

The Court's *Kirtsaeng* decision is not on point. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013). The copyright first sale doctrine is distinct from the patent exhaustion doctrine, and a foreign sale of a particular copy of a copyrighted work need not be subject to the same treatment as a foreign sale of an article embodying a patent. In *Kirtsaeng*, the Court addressed statutory construction of 17 U.S.C. § 109, which codified the copyright first sale doctrine. By contrast, patent exhaustion is a judicially created doctrine and is not subject to the statutory interpretation the Supreme Court undertook in *Kirtsaeng*. The Patent Act also includes express territorial language limiting its application to activities "within the United States," while this geographical language is absent from the relevant provisions of the Copyright Act. 35 U.S.C.

§ 271(a). International treaties also demonstrate the differences between copyright and patent in their international application. *See* Resp. Br. at 48 (noting that Berne Convention copyright treaty largely harmonizes copyright protection across member countries).

A more relevant case concerning the treatment of foreign sales under the patent law, with its presumption against extraterritoriality, is the Court's decision in *Boesch v. Graff*, 133 U.S. 697 (1890). In that case, the sale of a patented article in Germany did not exhaust U.S. rights. As noted by Lexmark, *Boesch* recognized "the distinct nature of U.S. and foreign patent rights." Resp. Br. at 50. The Court's recognition that the sale in Germany was not "under a United States patent" demonstrates that the important distinctions among the patent laws of each country must be maintained in analyzing the effect of a sale on U.S. patent rights. A foreign sale should not be presumed to be "under a United States patent," and should not be found to include U.S. patent rights, except under factual circumstances demonstrating that the patent owner intended such a result. Further, *Boesch* applied a restraint under U.S. patent law against the free importation of goods lawfully acquired abroad. To the extent Impression Products and its *amici* seek to extend *Kirtsaeng* into the patent realm in support of a principle that no downstream restraints on importation or sale can be imposed on lawful purchasers, such a result cannot be reconciled with *Boesch*.

IV. A Rule of International Exhaustion Based on Foreign "Authorized" Sales Would Be Overbroad and Incorrect

The facts of *Boesch* also highlight that there are many ways in which a sale might be characterized as an "authorized" sale. To the extent Impression and its *amici* argue that any "authorized" foreign sale exhausts U.S. patent rights, this formulation is unworkable because of the imprecision of the term "authorized," and it is also overbroad and inconsistent with established law.

It is clear that a foreign sale cannot be considered "authorized" where it is non-infringing simply because the sale occurs outside U.S. territory where U.S. patent rights do not apply. *Kirtsaeng* rejected this proposition in the context of copyright law, finding that "pirated" foreign sales do not trigger the copyright first sale doctrine. *Kirtsaeng*, 133 S.Ct. at 1361. Accordingly, *Kirtsaeng* would provide no support for such a theory. A purchaser of a copy of a pirated work sold in a foreign country is not free to distribute that copy in the United States in derogation of the rights of the U.S. copyright owner.

In the case of patent law, as reflected in the facts of *Boesch*, foreign patent law may provide that sales in a foreign country are non-infringing (*e.g.*, pursuant to the "prior use" rights in Germany at issue in *Boesch*), but this would not mean that a sale is "authorized" by the patent owner in the sense that the patent owner had expressly permitted it. A form of "authorization"

provided by the operation of foreign law should unquestionably apply only to rights arising under foreign patents. As confirmed by the result in *Boesch*, the lawful purchaser of the products from a German seller, who was free of restraints imposed by German patents, remained subject to U.S. patent rights. *Boesch*, 133 U.S. at 699.

V. The Court's Decision Should Address Only Sales Made By Patent Owners

There are many permutations of how sales and licenses may be accomplished by U.S. patent holders in the context of international commerce. Lexmark is a patent owner that sells products pursuant to a restricted license with specific terms. The Court should therefore address its decision to this factual situation, and should decline the invitation of Impression Products and its *amici* to adopt broad and unworkable standards that reach situations far outside the facts presented here.

For example, the seller may be the patent holder, who "authorizes" the sale by carrying it out, with or without conditions of sale or accompanying license terms. Or, the patent holder may license third parties to make sales under the terms and conditions of the license. A patent holder who authorizes sales by third parties in a foreign country may own patents issued in the foreign country and in the United States, and the foreign sale could be expressly authorized by the patentee under patents in the country of sale, under

U.S. patents, or both. Whether U.S. patent rights are included in connection with a foreign sale should depend on the facts of the case. A blanket, one-size-fits-all rule that deems U.S. patent rights to be always exhausted in the context of any foreign sale would be unwarranted, and would deprive parties of the flexibility to structure sales and/or licenses in the most efficient way and in the manner that meets the business goals of the parties. *See, e.g.*, Licensing Execs. Soc'y Br. 14-15 (providing examples of different structures). This, in turn, would hinder international commerce, to the detriment of U.S. patent holders and the nation's innovation economy that depends on their contributions.

CONCLUSION

Amicus curiae InterDigital, Inc. urges the Court to affirm the decision of the court of appeals. A rule of international patent exhaustion would represent a significant and unwarranted departure from settled principles of U.S. patent law that do not allow for extraterritorial application. In its most extreme form, international patent exhaustion has the potential to hand the "keys of the kingdom" of U.S. patent law over

to foreign governments, with resulting harm to the nation's interests.

Respectfully submitted,

DAVID S. STEUER
Counsel of Record
MICHAEL B. LEVIN
MAURA L. REES
WILSON SONSINI GOODRICH & ROSATI
650 Page Mill Road
Palo Alto, CA 94304
(650) 493-9300
dsteuer@wsgr.com

ANDREW G. ISZTWAN
INTERDIGITAL, INC.
200 Bellevue Parkway
Suite 300
Wilmington, DE 19809

Attorneys for Amicus Curiae
InterDigital, Inc.

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Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR *AMICUS CURIAE* INTERNATIONAL BUSINESS MACHINES CORPORATION IN SUPPORT OF AFFIRMANCE ON QUESTION TWO

MARK J. RINGES
MANNY W. SCHECTER
MARC A. EHRLICH
TERRY J. ILARDI
IBM CORPORATION
One North Castle Drive
Armonk, NY 10504
(914) 765-4343

PAUL D. CLEMENT
Counsel of Record
GEORGE W. HICKS, JR.
ANDREW C. LAWRENCE
KIRKLAND & ELLIS LLP
655 Fifteenth Street, NW
Washington, DC 20005
(202) 879-5000
paul.clement@kirkland.com

Counsel for Amicus Curiae

(Additional Counsel Listed on Inside Cover)

February 23, 2017

MARIAN UNDERWEISER
IBM CORPORATION
P.O. Box 218
1101 Kitchawan Road
Yorktown Heights, NY, 10598
(914) 945-1125

CORPORATE DISCLOSURE STATEMENT

Amicus curiae states that it has no parent corporation and that no publicly held company owns more than 10% of its stock.

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STATEMENT OF INTEREST[1]

International Business Machines Corporation ("IBM") is a globally recognized leader in the field of information technology research, development, design, manufacturing, and related services. During IBM's more than 100-year history, its employees have included five Nobel laureates, five National Medal of Science recipients, and ten winners of the National Medal of Technology. The U.S. Patent and Trademark Office ("USPTO") has granted IBM tens of thousands of U.S. patents—more patents per year than any other entity for each of the last 24 years.[2] Accordingly, IBM has long served as a leading advocate for sound patent policy.

IBM's sizeable U.S. patent portfolio, combined with the company's vast business operations in over 170 countries worldwide, makes IBM particularly well-positioned to address whether international sales of U.S.-patented articles should trigger exhaustion of U.S. patent rights, the second question

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[1] Pursuant to Supreme Court Rule 37.6, *amicus curiae* states that no counsel for any party authored this brief in whole or in part and that no entity or person, aside from *amicus curiae*, its members, and its counsel, made any monetary contribution toward the preparation or submission of this brief. Pursuant to Supreme Court Rule 37.3, counsel of record for all parties have consented to this filing.

[2] *See, e.g.*, Press Release, IFI CLAIMS, IFI CLAIMS Announces 2016 U.S. Patent Ranking (Jan. 6, 2017), http://bit.ly/2j9MUyP ("IBM again holds the #1 slot, which it has for 24 consecutive years, with 8,088 patents—up nearly 10 percent over 2015 and the most any company has ever acquired in a calendar year.").

presented in this case.[3] IBM brings a balanced view to the issue. As its very name suggests, IBM's business is truly international. IBM sells products and services throughout the world, participating in and relying upon a vast and complex international supply chain. IBM has considerable experience defending this supply chain against claims that it infringed U.S. patents. But as one of the most successful licensors of patented technology in the world, IBM relies on its ability to enforce its U.S. patent rights in order to advance its business interests. IBM continues to make a substantial investment in its U.S. patent portfolio in reliance on a mature, fair, and balanced U.S. patent system. In light of its appreciation for all of the interests implicated by this case, IBM files this brief in support of affirmance on question two to explain why a judicially devised doctrine of international patent exhaustion should not be engrafted onto U.S. patent law.

SUMMARY OF ARGUMENT

Thirteen judges have considered petitioner's argument that a U.S. patentee automatically exhausts its U.S. patent rights by selling a patented article in a foreign country. Not one agreed. In fact, an overwhelming majority concluded that U.S. patent rights are never exhausted through international sales, and that the use or resale of foreign-sold, U.S.-patented articles in the United States is patent infringement absent some other affirmative defense, such as express authorization by the patentee. That

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[3] IBM takes no position on question one.

result is in accord with settled understanding and is correct. The rights that a U.S. patent creates have no bearing outside the United States. As a consequence, selling patented articles outside the United States should not result in the forfeiture of those U.S. rights or permit the resale of articles in the United States free from U.S. patent protection. Were it otherwise, U.S. patentees would be enormously disadvantaged compared to counterparts in other countries.

This Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), endorsing international *copyright* exhaustion does not support a contrary result, but rather reflects salient and longstanding differences between patent and copyright law. Those differences are magnified when it comes to exhaustion doctrine (which is expressly codified in the Copyright Act, but not the Patent Act) and the international context. Most significant, under the Berne Convention, international copyright law is largely harmonized: a copyright in one of its 172 member states gives rise to a copyright in all, and that copyright enjoys largely standardized protections worldwide. No such harmonization exists in patent law. Currently, U.S. patentees must apply for a patent in *every* country, with no guarantees that the patent will be granted. Even if it is, the protections and remedies available can vary widely by country. As a result of these fundamental differences, *Kirtsaeng*'s copyright-specific principles do not speak to the question presented here.

An international patent exhaustion rule is unmoored from the rationale underlying domestic

patent exhaustion—and, for that matter, the rationale underlying international copyright exhaustion. As to domestic patent exhaustion, this Court has explained for over 160 years that patent exhaustion is justified when patentees receive the opportunity to obtain their "patent reward"—*i.e.*, a royalty for relinquishing patent rights over an individual article and removing that article from the patent monopoly. But U.S. patent rights do *not* exist extraterritorially. Accordingly, when a U.S. patentee authorizes the sale of a patented article overseas, it cannot fairly be said that the patentee has been provided the opportunity to be compensated for its U.S. patent rights. If the patentee never has the chance to receive the reward that justifies exhaustion, the foreign-sold article should not be removed from the patentee's U.S. monopoly. As to international copyright exhaustion, under the Berne Convention, the protections that copyright holders enjoy under U.S. law are largely the same worldwide. It therefore makes little difference where a sale takes place: unlike patentees, copyright holders have an opportunity to receive a reward that appropriately compensates them for relinquishing their largely standardized copyright protections, thereby removing the sold copies from the worldwide monopoly.

Not only does international patent exhaustion make little sense theoretically; it will have destabilizing consequences in practice. U.S. patentees wishing to sell their U.S.-patented products abroad generally have two options. They can sell directly to foreign customers; or, in many large emerging markets, they are required (by law or in practice) to partner with local businesses and

share U.S.-patented technology, thus authorizing the local partner to make and sell U.S.-patented articles in that country. In both cases, the articles are sold internationally at prices that reflect, among other things, local purchasing power and the patent protections the articles enjoy in that country. In some cases, those factors result in lower prices than in the U.S. market. Under petitioner's theory of automatic international patent exhaustion, these foreign-sold, U.S.-patented articles could enter the U.S. market after the first foreign sale, leaving U.S. patentees defenseless as they see their U.S. sales obliterated by cheaper-priced imports even though they never received an opportunity to collect the basic patent reward. That may only discourage innovation in the first instance or cause U.S. companies to scale back foreign operations, which could ultimately stifle innovation and the free flow of goods. The prudent approach is to maintain the rule of no international patent exhaustion announced in *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001).

The government's position—that international patent exhaustion is a presumption that U.S. companies can contract around—fares no better than petitioner's absolutist position and ignores that U.S. businesses have been contracting in the shadow of a different default rule for years. At least since *Jazz Photo*, U.S. patentees operating abroad have structured thousands of contracts in reliance on the rule that international patent exhaustion does not exist. If that rule were overturned, U.S. patentees would have to go hat-in-hand to foreign counterparties to renegotiate existing contracts to

disclaim international patent exhaustion. U.S. patentees also would have to offer concessions when negotiating such disclaimers in new contracts. And even if patentees secure the disclaimers on paper, there is no guarantee they would be enforced in court.

The problems generated by both petitioner's and the government's theories would disproportionately harm U.S. companies vis-à-vis their global competitors. Many foreign companies whose patent portfolios are comprised largely of foreign patents would not face the same dilemmas that U.S. companies would face under an international patent exhaustion regime, because their jurisdictions have *not* adopted international patent exhaustion. No matter how this Court decides this case, those competitors will continue to sell patented articles within the United States without sacrificing their home-country patent rights or needing to make contractual concessions to secure them. Worse, if U.S. patentees cannot reserve U.S. rights—which is inevitable under petitioner's theory and presumptive under the government's theory—then once a patented article is sold in a foreign country and imported into this country by a third party (fair game under international patent exhaustion), the United States effectively inherits that foreign country's patent policies, even if they squarely conflict with U.S. policies. That does not foster the development of a uniform and predictable body of patent law.

In light of these consequences, if international patent exhaustion is to be adopted, it should be by international treaty implemented by Congress. Only

an international agreement can ensure that the effects of international patent exhaustion are experienced evenly, and that U.S. patentees are not disadvantaged. The Federal Circuit's judgment on the second question presented should be affirmed.

ARGUMENT

I. *Kirtsaeng* Has No Bearing On International Patent Exhaustion.

This Court has long acknowledged that there are "'such wide differences'" between copyright and patent law that applying their rules interchangeably might "greatly embarrass consideration of a case." *Bobbs-Merrill Co. v. Strauss*, 210 U.S. 339, 345-46 (1908); *see also Eldred v. Ashcroft*, 537 U.S. 186, 216-17 (2003). The two statutes have material differences, such as the Copyright Act's express codification of exhaustion, a matter on which the Patent Act is silent. Patent law, moreover, is particularly distinctive in the transnational context. *See, e.g.*, *Boesch v. Graff*, 133 U.S. 697, 703 (1890). Thus, *Kirtsaeng*'s endorsement of international *copyright* exhaustion has no bearing on the far different question of international *patent* exhaustion presented here.

In *Kirtsaeng*, this Court held that a U.S. copyright holder's U.S. rights were automatically exhausted by the authorized foreign sale of a copy lawfully manufactured overseas. *Kirtsaeng*, 133 S. Ct. at 1355-56. In reaching that conclusion, the Court examined the exhaustion provision that Congress expressly included in the Copyright Act, which provides that one who purchases a "lawfully made" copy can sell or dispose of that copy "without

the authority of the copyright owner." *Id.* at 1354-55 (quoting 17 U.S.C. §109(a)). Unable to locate any "language, context, purpose, or history" that would limit application of that statutory provision to copies manufactured and sold within the United States (or to copies manufactured within the United States and first sold abroad), the Court concluded that it had no choice but to "favor a *non*-geographical interpretation" of the Copyright Act, such that one who purchases a lawfully made copy produced and sold overseas can sell or dispose of that copy as he wishes, just as he can had the copy been lawfully made within the territory of the United States. *Id.* at 1358, 1364.

But *Kirtsaeng* says literally nothing about patents or patent exhaustion; the term "patent" does not appear in *Kirtsaeng*. That alone is a warning against deciding the question of international patent exhaustion by reference to *Kirtsaeng* and the Copyright Act, as opposed to the distinct considerations that govern the question under the Patent Act.[4] And those distinct considerations all counsel for a different rule for international patent exhaustion.

The distinctions begin with the text of the statutes. The Patent Act codifies no doctrine of exhaustion in any form. *See* 35 U.S.C. §1 *et seq.* That is the opposite of the Copyright Act, which

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[4] Tellingly, this Court did not grant, vacate, and remand a case presenting a question of international patent exhaustion that was pending when *Kirtsaeng* issued, instead opting to deny certiorari. *See Ninestar Tech. Co., v. Int'l Trade Comm'n*, No. 12-552, 133 S. Ct. 1656 (2013).

unambiguously states that the first sale of a lawfully made copy exhausts the copyright holder's right to control the resale or disposal of that copy. *See* 17 U.S.C. §109(a). That copyright exhaustion provision is immensely powerful. For example, while the Copyright Act furnishes the copyright holder with the rights to control the distribution of copies and thus to exclude unauthorized imports of copies, *see id.* §§106(3), 602(a), those rights are ultimately subservient to the §109(a) exhaustion provision. *See Kirtsaeng*, 133 S. Ct. at 1355. And that exhaustion provision includes no indication that where a lawfully made copy is produced and sold has any relevance. *See id.* at 1358. In other words, by its very terms, the Copyright Act makes clear that once a copy is lawfully made and sold anywhere in the world, the copyright holder's U.S. rights, including the right to exclude the importation of that copy, are exhausted.

That simply is not the case with the Patent Act, which grants a patentee a *freestanding* right to exclude the unauthorized importation of U.S.-patented articles into the United States. The Patent Act precludes anyone, "without authority," from "impor[ting] into the United States any patented invention" before the patent term's expiration. 35 U.S.C. §271(a). The right to exclude unauthorized imports of patented articles is *not* subject to any exhaustion provision, because the Patent Act has no such provision. Thus, regardless whether a U.S. patentee authorizes a foreign sale, the right to exclude the importation of those articles survives.

In addition, the examination processes governing copyrights and patents are night and day. Copyright registration is not even a prerequisite to copyright protection. *See* U.S. Copyright Office, *Copyright Basics* 7 (May 2012), http://bit.ly/2jEMlx2. Instead, copyright exists the moment a work is fixed in a tangible medium of expression, *id.* at 3, with registration simply providing additional rights to the copyright holder, *see, e.g.*, 17 U.S.C. §411(a) (requiring copyright registration before commencing a copyright infringement suit). Conversely, a patent does not exist unless and until it is granted. *See* USPTO, *Patent FAQs* (last visited Feb. 3, 2017), http://bit.ly/2ka2zBo. And the patent examination process is far more "rigorous" than the copyright registration process, which has been described as "virtually pro forma." Douglas Y'Barbo, *The Heart of the Matter: The Property Right Conferred by Copyright*, 49 Mercer L. Rev. 643, 671 (1998).

Once copyrights are registered with and patents granted by the U.S. government, their respective terms differ drastically as well. For example, once an individual author registers his copyright, the copyright protections afforded by U.S. law extend for the duration of the author's natural life *plus* 70 more years. 17 U.S.C. §302(a). In stark contrast, patent terms can be as short as 15 years from the patent application filing date, 35 U.S.C. §173 (design patents), and do not exceed 20 years, *id.* §154(a)(2) (all other patents), absent extraordinary circumstances, *see, e.g.*, *id.* §156(g)(6) (extending term up to five years for articles subject to regulatory review).

These fundamental differences are magnified when it comes to the international treatment of U.S. copyrights and patents. Under the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention"), which the United States signed in 1989, international copyright law is largely harmonized. *See* Berne Convention, Sept. 9, 1886, revised at Paris, July 24, 1971, 828 U.N.T.S. 221. Today, the Berne Convention includes 172 member states. *See* WIPO, *WIPO-Administered Treaties* (last visited Feb. 1, 2017), http://bit.ly/1TacToa. As a result, "[n]ationals of a member country, as well as any author who publishes in one of Berne's [172] member states, ... enjoy copyright protection ... across the globe." *Golan v. Holder*, 565 U.S. 302, 308 (2012) (citing Berne Convention, art. 2(6)).

The protections afforded by the Berne Convention to copyright holders in any one of the 172 signing countries are extraordinary. To take an example, every member state must provide authors with a copyright for the duration of their natural lives plus at least an additional 50 years, "whether or not the author has complied with a member state's legal formalities." *Id.* (citing Berne Convention, arts. 5(2), 7(1)); *see also* Berne Convention, arts. 8-14*bis*, (listing numerous other rights afforded to copyright holders).[5] The significance of these rights is

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[5] The Berne Convention also permits countries to expressly *reject* the doctrine of copyright exhaustion under certain circumstances. Under Article 14*ter*, authors of original works of art, as well as writers and composers of original manuscripts, are permitted to collect royalties from *resales* of their works if their home countries have passed legislation permitting such

underscored by the degree to which member states, including the United States, had to modify their copyright laws to comply with the Berne Convention. For example, among other things, the United States had long granted copyright protections to foreign authors only if their home countries offered copyright protection to U.S. citizens, and then only if the foreign authors printed their works in the United States. *Golan*, 565 U.S. at 309. The Berne Convention's requirements were such a change from previous U.S. copyright law that Congress initially adopted a "'minimalist approach'" to compliance after the United States joined. *Id.* It was not until 1994 that the United States complied "in full measure," an achievement this Court has branded a "signal event" in copyright law. *Id.* at 324.

In stark contrast to the globalized nature of copyright law, patent law is distinctly national and territorial. Countries have repeatedly *rejected* attempts to harmonize their respective patent regimes. Under the 1883 Paris Convention for the Protection of Industrial Property ("Paris Convention"), "[p]atents applied for in the various countries of the Union ... shall be independent of patents obtained for the same invention in other countries." Paris Convention, Mar. 20, 1883, revised at Stockholm, July 14, 1967, art. 4*bis*, 21 U.S.T. 1583. More recently, the Agreement on Trade Related Aspects of Intellectual Property Rights ("TRIPS"), negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and

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royalties, and if the countries in which they are seeking such royalties allow them. *See* Berne Convention, art. 14*ter*.

Trade in 1994, provides that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." TRIPS, Apr. 15, 1994, art. 6, 33 I.L.M. 1197.[6] Thus, while a copyrighted work automatically receives protection in all Berne Convention member states, a patentee must apply for and receive approval in each individual country in which patent protection is desired. *Cf. Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 456 (2007) ("[F]oreign law alone, not United States law, currently governs the manufacture and sale of components of patented inventions in foreign countries.").

Moreover, each country establishes different standards of patentability, a distinct menu of patent protections, and different remedies for infringement, all of which can differ substantially from U.S. law. In Europe, for example, which historically has lacked the kind of robust software industry we have in the United States, "computer programs 'as such' are excluded from patentability by Member States of Europe and the [European Patent Convention]." Georgios I. Zekos, *Cyberspace and IPRs Stimulus on Foreign Direct Investment in the European Union*, 20 No. 6 J. Internet L. 3, 13 (2016). Brazil has such a backlog in patent applications that it takes an average of ten years to receive a patent. *See* Lisa L.

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[6] The Patent Cooperation Treaty ("PCT"), June 19, 1970, 28 U.S.T. 7645, provides a more straightforward means to *apply* for patent protection in foreign countries, but it "does not supersede or replace" the Paris Convention. *See* John Gladstone Mills III, et al., *WIPO—Patent Cooperation Treaty*, 7 Pat. L. Fundamentals §21:7 (2d ed. 2017).

Mueller & Caitlin Mac Nair, *Expediting Patent Prosecution in Brazil*, Nat'l L. Rev. (Mar. 29, 2016), http://bit.ly/1Rq0P0F. Patentees in China have lamented "insufficient monetary damages" for patent infringement. USPTO, *Report on Patent Enforcement in China* 7 (July 13, 2012), http://bit.ly/2mm0Oih. And some countries offer such poor patent protection that "a U.S. patentee may choose not even to seek patent protection." *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 762 (Fed. Cir. 2016). Finally, of course, even if a foreign country offers strong patent protections today, there is nothing comparable to the Berne Convention to ensure that those protections will exist tomorrow.

Accounting for all of the differences between copyright and patent law—particularly the international harmony in the former and the international cacophony in the latter—*Kirtsaeng* cannot dictate the answer to the second question presented here.

II. International Patent Exhaustion Is Inconsistent With Domestic Patent Exhaustion and International Copyright Exhaustion.

The justification for domestic patent exhaustion does not support, and in fact counsels against, a doctrine of international patent exhaustion. For over 160 years, this Court has explained that domestic patent exhaustion is triggered when a patentee has an opportunity to receive a financial reward for relinquishing its U.S. patent rights as to an individual article, thereby removing that article from the U.S. patent "monopoly." But when a U.S.

patentee sells a patented article overseas, U.S. patent rights are not involved, for such rights generally exist *only* in the United States. A foreign-sold article thus is not removed from the U.S. monopoly unless the patentee expressly or implicitly relinquishes its U.S. patent rights. Indeed, international patent exhaustion is inconsistent with not only the theory underlying domestic patent exhaustion, but also the theory underlying international copyright exhaustion.

A. Domestic Patent Exhaustion Occurs When Patentees Have an Opportunity to Receive a Financial Reward for Relinquishing U.S. Patent Rights.

Since 1853, this Court has defended the judicially crafted doctrine of domestic patent exhaustion by reference to the "reward" theory. *See Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852). Upon receiving a U.S. patent, the patentee earns a "monopoly" over his invention for a limited period of time. That monopoly means that "the patentee possesses exclusive rights to the patented article." *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2407 (2015); *see also* 35 U.S.C. §154(a) (listing patent rights). But when the patented article "passes to the hands of the purchaser," it "is no longer within the limits of the monopoly." *Bloomer*, 55 U.S. (14 How.) at 549. Instead, the patented article "passes outside of [the monopoly], and is no longer under the protection of the act of Congress," *id.*, because the patentee has "receive[d] the consideration for its use," *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873).

In other words, the "test" for domestic patent exhaustion for the better part of two centuries has been "whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article." *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942); *see also Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008) (holding that patent exhaustion also applies when there is an "authorized sale of an article that substantially embodies a patent"). And "use" of a patented article—along with the "incident[al]" right to resell it, *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942)—is an act that patentees could otherwise lawfully exclude. *See* 35 U.S.C. §154(a)(1). Thus, when a patentee sells a U.S.-patented article within the United States, the *quid pro quo* that justifies the doctrine of exhaustion is a relinquishment of U.S. patent rights to control the use and resale of the article in exchange for an opportunity to receive a financial reward. Once that transaction is completed, the patented article is removed from the U.S. monopoly. *See Univis*, 316 U.S. at 251 (where "reward ... was demanded and received," inventor "has thus parted with his right to assert the patent monopoly with respect to [the article].").

But patent exhaustion extinguishes the patentee's U.S. rights *only* as to the individual article sold. A single sale of a single patented article does not enable "the purchaser of that article [to] make and sell endless copies." *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013). That is so "because the patent holder has 'received his reward' only for the actual article sold." *Id.* at 1766. If patentees never

receive a chance to collect a reward for each individual article, the "patent would provide scant benefit." *Id.* at 1767. The doctrine of patent exhaustion is to be interpreted "to avoid just such a mismatch between invention and reward." *Id.*

This Court therefore has made clear that whether the doctrine of patent exhaustion applies must be analyzed in the context of an individual sale of an individual article. Only then can it be determined whether the patentee has received a chance to obtain his reward for relinquishing his U.S. patent rights as to the article, so that it can be fairly said that the article has "passe[d] without the limit of the monopoly." *Adams*, 84 U.S. (17 Wall.) at 456.

B. U.S. Patent Rights Are Not Relinquished Through Foreign Sales Because U.S. Patent Law Does Not Apply Extraterritorially.

This Court's teachings on the territorial limits of U.S. patent law enjoy a historical pedigree comparable to the reward theory of domestic patent exhaustion. They confirm that international patent exhaustion simply cannot be squared with the domestic species of that doctrine.

In 1856, this Court explained that U.S. patent laws "do not, and were not intended to, operate beyond the limits of the United States; and as the patentee's right of property and exclusive use is derived from them, they cannot extend beyond the limits to which the law itself is confined." *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1856). These principles of territoriality have been adhered to by this Court uninterruptedly, as Congress has never

thought it wise to apply U.S. patent law extraterritorially. *See Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915) ("The right conferred by a patent under our law is confined to the United States and its territories."); *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) ("Our patent system makes no claim to extraterritorial effect."). Indeed, even when Congress has targeted efforts to exploit the territorial limits of U.S. patent law, it has done so by targeting conduct in the United States. *See* 35 U.S.C. §271(f)-(g). Thus, that U.S. patent law "governs domestically but does not rule the world" is as true today as it was two centuries ago. *Microsoft*, 550 U.S. at 454. If a U.S. patentee desires patent protections and a patent monopoly in a foreign country, "its remedy today lies in obtaining and enforcing foreign patents." *Id.* at 456.

The net effect of the territorial limits of U.S. patent law is that when U.S. patentees sell patented articles in foreign countries, U.S. patent rights cannot "fairly be said" to have been implicated, let alone exhausted. *Masonite Corp.*, 316 U.S. at 278. U.S. patent law simply does not reach the "actual article sold" abroad. *Bowman*, 133 S. Ct. at 1766. To the contrary, foreign-sold articles fall under the umbrella of foreign law, which includes its own menu of patent protections and remedies, or perhaps no protections or remedies. The *quid pro quo* that justifies exhaustion of U.S. patent rights domestically—namely, an opportunity to receive a financial reward in exchange for the relinquishment of U.S. patent rights—is therefore absent in the international context. *Accord* U.S.Br.27 ("[A] foreign

sale does not constitute an exercise of patent rights under U.S. law, and the price charged for that sale is not necessarily calibrated to reward the patentee for any relinquishment of those U.S. rights."). Patent exhaustion thus cannot apply to sales beyond the borders of the United States.

Of course, this is not to say that patented articles sold in foreign countries can *never* be imported, used, or resold in the United States without infringing U.S. patents. To the contrary, an express or even implied license from the patentee to the foreign-country purchaser to perform such acts would constitute a valid defense to any claim of infringement. *Lexmark*, 816 F.3d at 767. For example, a patented article sold at a foreign airport, seaport, or any other location where the circumstances imply eventual foreign use could give rise to an implied license. *Id.* at 771. But such a defense is distinct from exhaustion. *See Quanta*, 553 U.S. at 637. And U.S. patentees alleging infringement can at least rebut defenses invoking express or implied licenses—by showing, for example, that an express license is limited in scope, or that the circumstances surrounding the transaction do not give rise to an implied license. But there is practically no disproving an exhaustion defense. A purchaser's actions are *automatically* permissible under exhaustion, because all that is required is an authorized first sale, no matter the circumstances surrounding the transaction. Since express and implied licenses properly balance the interests of both consumers and patentees, the Court should reject any invitation to adopt a heavy-handed doctrine of international patent exhaustion that will almost exclusively disadvantage U.S. patentees.

C. International Copyright Exhaustion Is Unique Because of the Berne Convention.

The theoretical basis for international patent exhaustion also cannot be located in the underpinnings of international *copyright* exhaustion. Indeed, as already suggested, the salient differences between copyright and patent law affirmatively support the application of different international exhaustion rules. What makes sense in the context of harmonized international copyright protection does not make sense in the distinctly territorial world of patent law, where protections vary widely across nations.

The need for differential treatment flows directly from differences in how U.S. copyrights and patents are respected internationally. As noted, under the Berne Convention, a U.S. copyright holder automatically receives copyright protection in 172 countries around the world once a copyrightable work is created. There are only 195 independent nations in the world, and so the Berne Convention effectively transforms a U.S. copyright into a "worldwide copyright." *See* U.S. State Dep't, *Independent States in the World* (last modified Jan. 20, 2017), http://bit.ly/2jKUSyj. And the rights secured by this worldwide copyright are synchronized in each Berne Convention member state: at least for a term of life-plus-50-years, a copyright holder possesses largely the same arsenal of exclusive rights in nearly 90% of the world's recognized countries. Given this international harmonization, it makes little difference where the first sale of a lawfully made

copy takes place; the first sale in any Berne Convention member state provides the copyright holder with an opportunity to collect his reward for relinquishing his globally harmonized rights to control that copy, and that copy is thereafter removed from the copyright monopoly across the Berne Convention bloc.

Kirtsaeng illustrates the point. There, Kirtsaeng had requested that friends and family buy foreign-edition English-language textbooks in Thai book shops and send them to him in the United States. *Kirtsaeng*, 133 S. Ct. at 1356. Kirtsaeng then resold them to U.S. customers, reimbursed the Thailand-based purchasers, and pocketed the profits. *Id.* But Thailand has long been a Berne Convention member. *See* WIPO, *WIPO-Administered Treaties*, *supra*. Consequently, all of the international sales of the copyrighted textbooks at issue in *Kirtsaeng* occurred within territory where John Wiley's worldwide copyright was recognized, and where the publisher enjoyed similar copyright protections as in the United States. *Compare* Copyright Act, B.E. 2537 (1994) (Thai.), *with* 17 U.S.C. §101 *et seq.* When John Wiley received the opportunity to collect a financial reward for those copies in Thailand, its right to control the sale and disposal of those copies in the United States likewise was extinguished. Were it otherwise, John Wiley would have received a double reward for relinquishing the same rights.

This logic does not carry over to international sales of patented articles. As previously discussed, under the Paris Convention, a patent in one country does not give rise to a patent anywhere else. Rather,

U.S. patentees must apply for and obtain a patent in each individual country. Patent monopolies are inherently *country*-specific, and a U.S. patentee is almost certain to have patent protection in less than the rest of the world. Even if U.S. patentees have foreign counterparts to their U.S. patents, those foreign patents may, for example, have a narrower scope as well as much weaker protections and remedies—thus generating a far lesser reward—than the U.S. patent.

At bottom, international patent exhaustion is theoretically inconsistent with domestic patent exhaustion and international copyright exhaustion. Accordingly, there is simply no sound doctrinal reason to recognize international patent exhaustion.

III. International Patent Exhaustion Would Produce Destabilizing And Unintended Consequences.

Not only is international patent exhaustion doctrinally incoherent; it would create enormous problems in practice. That is true under either petitioner's or the government's theory. Under petitioner's theory of automatic international exhaustion, U.S.-patented articles sold overseas to foreign customers at local-market prices could be imported into the United States without infringing U.S. patents, all while leaving patentees with no resort to U.S. patent law. And under the government's theory—that international exhaustion should be the default presumption that U.S. patentees can contract around—U.S. companies would be placed in a highly disadvantageous position either as they renegotiate existing contracts written

against a default understanding that no doctrine of international patent exhaustion exists, or as they negotiate new contracts. Both approaches, furthermore, would disadvantage U.S. companies compared to foreign competitors, devalue U.S. patents relative to foreign patents, stifle innovation, disrupt international commerce, and undercut U.S. patent policy.

A. Petitioner's Theory Would Allow Foreign-Sold Articles to Flood the U.S. Market and Leave Patentees Defenseless.

1. Foreign Sales by Foreign Licensees.

Many U.S. companies, including IBM, conduct a significant portion of their research and development in the United States and thus correspondingly seek the bulk of their patent protection here. U.S. companies like IBM therefore have patent portfolios that generally are U.S.-centric. To operate in some of the largest emerging markets internationally, however, U.S. companies often are required to partner with local businesses and share patented technology—for example, through licensing agreements. *See, e.g.*, U.S. Trade Representative, *2016 Special 301 Report* 20 (Apr. 2016), *available at* http://bit.ly/1VC434h (reporting that U.S. companies operating in other countries have experienced "an increasing variety of government measures, policies, and practices that are touted as means to incentivize domestic 'indigenous innovation,' but that, in practice, can disadvantage U.S. companies, such as by requiring foreign companies to give up their IPR [intellectual property rights] as the price of market

entry"). Pursuant to those agreements, local licensees have authority to manufacture patented articles for sale within the foreign market. But those licensing agreements are not "under the authority" of U.S. patents because U.S. patents cannot be exercised beyond the United States. *See* U.S.Br.27 ("For purposes of patent exhaustion, it is appropriate to distinguish between a foreign sale made under the authority of a foreign patent or otherwise in accordance with foreign law, and a U.S. sale made under the authority conferred by the U.S. patent pursuant to U.S. law."). U.S. patentees thus do not charge foreign licensees a "premium for forfeiting [their] exclusive right under U.S. law to prevent the sale of [the] patented article in the United States." *Id.*

Petitioner's theory—*i.e.*, that U.S. patent rights are conclusively exhausted upon an authorized sale that takes place in a foreign country—thus creates extraordinary risk for U.S. companies operating internationally, especially in emerging markets. Indeed, petitioner's theory is particularly damaging to companies like IBM that are not only highly innovative (and thus have large U.S. patent portfolios) but also actually bring products to market worldwide (and thus engage in substantial foreign sales of products embodying U.S.-patented technology). Prices in foreign markets reflect a number of factors, including the patent protections that an article enjoys in that market as well as local purchasing power. Accordingly, prices in some foreign markets, especially emerging markets, are lower than in the United States. If the first sale of a patented article in a foreign market exhausts U.S.

patent rights, then it is only a matter of time before arbitrageurs take advantage of the business opportunity: foreign distributors could simply purchase foreign-made articles from local licensees for export to the United States. Indeed, petitioner envisions, if not encourages, this precise outcome. *See* Pet.Br.56 ("If a patentee authorizes articles practicing its patent to be sold abroad at prices lower than those offered within the United States, American consumers should be permitted to purchase those goods for use in the United States.").

But if lower-priced, foreign-sold articles can be imported into the United States for resale, those articles would undercut patentees' U.S. sales without giving patentees an opportunity to receive any reward for the U.S. patent. Foreign sales that reflect foreign patent protection and foreign purchasing power often cannot provide an adequate reward. And without an adequate reward, the patentee would struggle to recoup the significant up-front costs incurred in developing the patented technology in the first place. The "mismatch between invention and reward" would be staggering. *Bowman*, 133 S. Ct. at 1767. And it would be antithetical to U.S. patent law, the "declared purpose" of which is "to promote the progress of science" by granting to an inventor "a limited monopoly, the exercise of which will enable him to secure the financial rewards for his invention." *See Univis*, 316 U.S. at 250. If patentees are unable to secure their financial rewards, the "patent would provide scant benefit," *Bowman*, 133 S. Ct. at 1767, and innovation could slow dramatically. Indeed, U.S. patentees may be reluctant even to develop new technology if they are not properly

compensated, and many may reconsider collaborating with foreign partners, thus stifling the free flow of goods.

U.S. patentees could attempt to charge local licensees royalties on foreign-market sales as if those sales occurred within the United States. But such royalties would necessarily be higher than the rates U.S. companies currently charge in foreign markets, and local partners would be loath to pay U.S.-market rates for non-U.S. sales—particularly when competitor products, from countries without an international exhaustion doctrine, *see* pp.31-33, *infra*, do not require such premiums. Nor would foreign customers take kindly to paying the higher costs that licensees inevitably would pass on in the event that such an agreement was reached. Thus, charging higher rates to licensees in foreign markets may well only slow sales and cause patentees to lose money from their international operations.

2. Foreign Sales by U.S. Patentees.

U.S. patentees would face many of these same problems even if they operated in countries where they did not have to partner with local licensees and could make direct sales to foreign customers. If the first sale by a U.S. patentee in a foreign market exhausted the patentee's U.S. rights, then patentees who maintain the status quo of selling patented articles at locally competitive prices would be doing so at their peril.

Instead, patentees likely would have to price patented articles in foreign markets on the assumption that the products will be imported into the United States. Patentees therefore would have to

charge higher prices for those articles to account for the relinquishment of U.S. patent rights and the corresponding removal of the articles from the U.S. monopoly. But just as in the foreign licensee context, many consumers in foreign countries would not be able to afford patented articles that are priced with an eye toward the U.S. market. Thus, as U.S. patentees try to defend themselves against arbitrageurs by adopting international pricing parity, patentees would lose many foreign customers for whom U.S. prices are out of reach. Such a result harms both patentees and consumers.

Patentees could conceivably avoid these problems by leasing, rather than selling, patented articles to foreign customers—the exhaustion doctrine, after all, requires a first *sale*—but that approach creates its own problems. Foreign customers would have no rights to sell the articles within their own countries; indeed, they would have no equity in the purchased articles at all. And without title to the articles, including the ability subsequently to sell the articles within the country of sale, many customers would be uninterested. Moreover, upon a breach of the leasing agreement, U.S. patentees likely would have to resort to foreign law and local courts to obtain any remedy, injecting further uncertainty into an already undesirable business arrangement.[7]

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[7] U.S. patentees could insert post-sale restrictions on articles that they either sell through licensees or sell directly in foreign markets, but the validity of such restrictions hinges on this Court's answer to question one.

No matter the path taken, U.S. patentees—and U.S. consumers, U.S. innovation, and perhaps even non-U.S. consumers—are harmed under petitioner's theory.

B. The Government's Theory Would Burden U.S. Companies Negotiating Contracts Overseas.

In rightly urging rejection of petitioner's position, the government acknowledges the doctrinal incoherence and far-reaching consequences of an automatic international patent exhaustion regime. *See* U.S.Br.26-32. But the government then endorses a half-a-loaf version of that same regime, under which international patent exhaustion would be the default rule that U.S. patentees must contract around to reserve U.S. rights. *See id.* at 32-34. It is hard to understand—and the government does not meaningfully explain—why a doctrine so antithetical to the basic territorial approach of patent law that it should not apply automatically (as the government does explain) should nevertheless be the default rule. In fact, international patent exhaustion makes no sense—either theoretically or practically—in either a strong or weak form. It is both the wrong rule and the wrong default rule.

At least since the Federal Circuit's decision in *Jazz Photo* in 2001, U.S. patentees have understood the default rule to be that there is no exhaustion of U.S. patent rights through foreign sales.[8] That is

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[8] Arguing to the contrary, the government asserts that "U.S. courts have ... generally concluded ... that an unrestricted sale abroad authorized by the U.S. patentee will exhaust the patentee's right to control importation of the particular article

because the *Jazz Photo* court, citing this Court's *Boesch* case from 1890, explicitly held as much. *See Jazz Photo*, 264 F.3d at 1105 ("United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent."). And that understanding was only confirmed when this Court denied certiorari in a case presenting a question of international patent exhaustion just six days after *Kirtsaeng* issued. *See Ninestar*, 133 S. Ct. at 1657.

In reliance on *Jazz Photo*'s background rule of no international patent exhaustion, U.S. companies with significant U.S. patent portfolios, including IBM, have entered into literally tens of thousands of long-term contracts with foreign counterparties *without* addressing issues of international patent exhaustion on the understanding that silence left their U.S. patent rights intact. Thus, in many licensing agreements, there are no provisions explaining that patented articles sold pursuant to the agreement cannot be imported into the United States. And such restrictions generally do not accompany a patentee's direct sale of a patented article to a foreign customer.[9] This reliance on *Jazz Photo* in setting the

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into the United States and its subsequent resale or use within this country." U.S.Br.25 (emphasis omitted). But the government cites no case postdating *Jazz Photo* advancing this "general" conclusion; indeed, the most recent case it cites is a district court decision from 1988. The most recent appellate decision it cites is from *1920*.

[9] Of course, patentees may affirmatively relinquish U.S. rights or global rights, either through a license or direct sale. *See, e.g., STMicroelectronics, Inc. v. Sandisk Corp.*, No.

default rule should not be ignored. *Cf. Payne v. Tennessee*, 501 U.S. 808, 828 (1991) ("Considerations in favor of *stare decisis* are at their acme in cases involving property and contract rights, where reliance interests are involved.").

If *Jazz Photo*'s established rule were suddenly abolished in favor of the government's opposite default rule, U.S. companies would be placed in an untenable negotiating position as they seek to insert provisions disclaiming international patent exhaustion into tens of thousands of existing contracts. Even setting aside the logistical nightmare of reopening negotiations for every existing contract, U.S. patentees would be forced to go hat-in-hand to their foreign counterparties. And those counterparties undoubtedly would seek something of value in return for providing the disclaimer, as they have no incentive to offer it for free.

These problems would similarly infect the negotiations for new contracts. Under the government's theory, U.S. patentees negotiating new contracts now have to seek an *extra* term that was never previously necessary. Any rational foreign counterparty will seek an additional concession in exchange for such a provision. Worse still, some patentees may not be sophisticated enough to know that foreign sales exhaust U.S. patent rights absent affirmative action on their part. The government's position thus becomes a trap for the unwary.

4:05CV45, 2007 WL 951655, at *3 (E.D. Tex. Mar. 26, 2007). But those arrangements are the exception.

Furthermore, even if U.S. patentees succeed in negotiating provisions disclaiming international patent exhaustion on paper, they would have no assurance that such provisions would hold up in court. A slight mistake during the contracting process could render the disclaimer legally unenforceable, and U.S. patentees could suffer international patent exhaustion despite their best efforts to avoid it. These risks would only be compounded by the fact that contracts with foreign counterparties implicate another country's contract law. Indeed, as the government acknowledges, "German law" controlled critical questions in *Boesch*. U.S.Br.23. Thus, as in the licensee context, U.S. patentees may conclude that operating in some foreign markets presents intolerable risks. If U.S. patentees do not sell in foreign countries, international commerce inevitably suffers as well.

Put simply, the government's barely-supported contention that a presumptive rule of international patent exhaustion is "superior" to *Jazz Photo*'s rule of no exhaustion, *id.* at 25, ignores both the body of existing contracts and the realities of negotiating new contracts with foreign counterparties. This weak form of petitioner's misguided theory should suffer the same fate and be rejected.

C. Either Theory Would Disadvantage U.S. Patentees, Devalue U.S. Patents, and Undermine U.S. Patent Policy.

Petitioner's and the government's theories both share other serious defects. Regardless whether the theory is one of conclusive or presumptive international patent exhaustion, there is no escaping

that either would disadvantage U.S. patentees relative to foreign patentees, devalue U.S. patents compared to foreign counterparts, and require U.S. patent policy to yield to foreign law.

The historical norm has been that developed countries do not recognize international patent exhaustion, while developing countries do. *See* Christopher J. Clugston, *International Exhaustion, Parallel Imports, and the Conflict Between the Patent and Copyright Laws of the United States*, 4 Beijing L. Rev. 95, 96 (2013) ("Roughly, the disagreement over international patent exhaustion breaks down along developed and developing country lines."). Contrary to petitioner's suggestion, this rift persists.[10] In keeping with that divide, the European Union does not apply automatic or presumptive international patent exhaustion to articles that enjoy patent protection in a member state but are sold outside of the bloc. *Id.* at 97. Thus, a German patentee that sells a German-patented article in China or India need not fear that it could be exported back to Germany without infringing the German patent. *See*

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[10] Petitioner asserts that "the international community is moving toward international exhaustion," and that "[a]t least 24 countries have adopted rules of international patent exhaustion." Pet.Br.55 (citing WIPO Committee on Development and Intellectual Property, *Patent Related Flexibility in the Multilateral Legal Framework and Their Legislative Implementation at the National and Regional Levels*, Annex II, Fifth Session, CDIP/5/4 (Mar. 1, 2010). Setting aside that the WIPO document on which petitioner relies indicates that only 21 (not 24) countries have done so, petitioner omits that the remainder of the 83 countries surveyed (which includes regional blocs, such as the European Union) have *not* adopted international patent exhaustion.

Patent Law in Global Perspective 475 (Ruth L. Okediji & Margo A Bagley eds., 2014) ("[T]he German Federal Supreme Court was clear in rejecting international exhaustion." (citing Bundesgerichtshof [BGH] [Federal Court of Justice] Dec. 14, 1999, Neue Juristische Wochenschrift-Rechtsprechungs-Report [NJW-RR] 569, 2000 (Ger.)).

Both petitioner's and the government's theories thus would result in a unilateral weakening of U.S. patents and would comparatively disadvantage U.S. companies possessing those patents. If either theory were adopted, the rights attached to a U.S. patent would shrink while those associated with certain foreign patents, such as German patents, would remain constant. And whereas, under the government's theory, U.S. patentees would have to disclaim international patent exhaustion in every foreign contract—efforts that ultimately may prove futile—many foreign competitors would not have to jump through those same hoops.

Recognizing a doctrine of international patent exhaustion is particularly pernicious because it effectively would require the United States to adopt foreign countries' patent policies and practices. Suppose, for example, that a U.S. company develops a product and obtains a U.S. patent for 20 years. *See* 35 U.S.C. §154(a)(2). Suppose also that the U.S. patentee wants to protect its invention in a particular foreign country but, owing to backlogs in that country's patent examination process, it takes ten years to obtain a patent there. That is not some fanciful hypothetical: that is the average delay right now in Brazil. *See* pp. 13-14, *supra*. For some ten

years, then, the U.S. patentee would have *no* patent protection while selling its product in the foreign country. And for that same period, because the U.S. patentee would have no right to exclude others in that foreign country from making the product, it would have to sell its product at a lower price in order to compete. If the United States had an international patent exhaustion rule, the U.S. patentee would be powerless to prevent the importation of its lower-priced foreign-market product into the United States, because the foreign sales of that product exhausted its U.S. patent rights. The end result would be no different than if the United States had the same ten-year delay for granting patents as the foreign country. By contrast, in a no-international-exhaustion regime, the foreign sales would not trigger exhaustion of the U.S. patent, and the U.S. company would, under U.S. patent law, have the right to exclude the importation of the product into the United States. The effects of the foreign country's extreme delay in processing patent applications would be contained to the foreign country.

International patent exhaustion thus places the United States at the mercy of foreign patent regimes. This Court squarely rejected that result 125 years ago. *See Boesch*, 133 U.S. at 703 ("The sale of articles in the United States under a United States patent cannot be controlled by foreign laws."). The result should be no different today.

IV. Any Doctrine Of International Patent Exhaustion Should Be Adopted By Treaty And Implemented By Congress.

In light of the destabilizing consequences that would result from any judicially crafted doctrine of international patent exhaustion, the prudent course is to leave undisturbed the rule rendered explicit in the 2001 *Jazz Photo* decision—*no* international patent exhaustion. The coordinate branches can then decide whether to endorse international patent exhaustion and legislate the precise metes and bounds of an international exhaustion regime.

To date, Congress has declined to adopt international patent exhaustion, even though it has had many chances to do so since *Jazz Photo*, including in its recent overhaul of the U.S. patent system. *See* Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). And previous attempts to harmonize patent-exhaustion rules across countries have failed. *See* Paris Convention, art. 4*bis*; *see also* TRIPS, art. 6; Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion and a Few Other Things*, 21 Mich. J. Int'l L. 333, 346 (2000) (noting that "Article 6 of TRIPS reflects [the negotiators'] ultimate inability to agree" on international exhaustion rules).

Congress' deliberate decision not to act on international patent exhaustion does not convert this important policy issue into one fit for judicial resolution. *Am. Elec. Power Co., v. Connecticut*, 564 U.S. 410, 423-24 (2011) ("[I]t is primarily the office of Congress, not the federal courts, to prescribe national

policy in areas of special federal interest."). If anything, Congress' silence in the face of *Jazz Photo*'s clear rule indicates congressional assent to the current no-exhaustion regime, which this Court should be reluctant to disturb. *See Kimble*, 135 S. Ct. at 2409-10. Similarly, the inability to reach cross-border consensus does not mean that this Court should now fill the void. To the contrary, precisely because international patent exhaustion is exceedingly sensitive, both domestically and internationally, any decision to adopt such a regime should be made pursuant to an international treaty, or other international agreement (in which the United States could ensure reciprocal benefits and avoid placing U.S. companies at a systematic disadvantage), that is negotiated by the executive branch and implemented by Congress through legislation.

And that is only fair. As petitioner and the government would have it, U.S. patentees alone should be disarmed of patent rights while foreign patentees should have resort to the full arsenal their countries give them. There is nothing to recommend that inequitable position, which would disadvantage U.S. companies and disarm U.S. negotiators. Rather, if the United States makes a commitment to international patent exhaustion, U.S. patentees should have confidence that foreign competitors holding foreign patents will be subject to the same set of rules. This Court should not take it upon itself to craft a judicial doctrine that would unilaterally weaken U.S. patents and U.S. patentees.

CONCLUSION

For the foregoing reasons, this Court should affirm the Federal Circuit's judgment on international patent exhaustion.

Respectfully submitted,

MARK J. RINGES
MANNY W. SCHECTER
MARC A. EHRLICH
TERRY J. ILARDI
IBM CORPORATION
One North Castle Drive
Armonk, NY 10504
(914) 765-4343

PAUL D. CLEMENT
Counsel of Record
GEORGE W. HICKS, JR.
ANDREW C. LAWRENCE
KIRKLAND & ELLIS LLP
655 Fifteenth Street, NW
Washington, DC 20005
(202) 879-5000
paul.clement@kirkland.com

Marian Underweiser
IBM CORPORATION
P.O. Box 218
1101 KITCHAWAN ROAD
YORKTOWN HEIGHTS, NY,
10598
(914) 945-1125

Counsel for Amicus Curiae

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IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICUS CURIAE* LICENSING EXECUTIVES SOCIETY (U.S.A. AND CANADA), INC. IN SUPPORT OF NEITHER PARTY

DANIEL S. STRINGFIELD
Counsel of Record
KATHERINE H. JOHNSON
STEPTOE & JOHNSON LLP
115 S. LaSalle, Suite 3100
Chicago, Illinois 60603
312.577.1300
dstringfield@steptoe.com

Counsel for Amicus Curiae Licensing Executives Society (U.S.A. and Canada), Inc.

BRIAN P. O'SHAUGHNESSY
President and Chair
LICENSING EXECUTIVES SOCIETY (USA AND CANADA), INC.
11130 SUNRISE VALLEY DRIVE, SUITE 350
RESTON, VA 20191
202.808.7365

JANUARY 24, 2017

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INTEREST OF AMICUS CURIAE

The Licensing Executives Society (U.S.A. and Canada), Inc. ("LES") is the global leader in the business applications of intellectual property ("IP") rights and their management, and it is devoted to standards development, education, and certification.[1] It is an independent, non-profit, professional society that promotes best practices in IP transactions, IP protection, and IP strategy. LES counts among its members lawyers as well as experts in the IP strategy, business management, accounting, business development, supplier management, program management, sales, marketing, and IP valuation fields. Among these are representatives of innovation oriented companies from all business sectors, government agencies, and university labs.

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[1] In accordance with Supreme Court Rule 37.6, LES states that this brief was not authored in whole or in part by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than LES and its counsel. Specifically, after reasonable investigation, LES believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to this litigation in this matter; (ii) no representative of any party to this litigation participated in the authorship of this brief; and (iii) no one other than LES, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief. Pursuant to Supreme Court Rule 37.3, Respondent granted blanket consent to the filing of *amicus curiae* briefs on December 20, 2016. Consent from Petitioner is submitted herewith.

LES is a community of approximately 3,000 IP professionals, and it is a member society of LES International ("LESI"), a worldwide network of more than 9,000 IP management practitioners in 32 sister societies.

SUMMARY OF ARGUMENT

This case presents two questions pertaining to possible expansion of the doctrine of patent exhaustion. First, this Court will consider whether the United States Court of Appeals for the Federal Circuit's ("CAFC") holding in *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), that foreign sales of patented articles do not exhaust United States patent rights, remains viable in the wake of this Court's copyright exhaustion decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). Second, this Court will consider whether the CAFC's holding in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), that lawfully restricted sales of a patented article do not exhaust patent rights, was overruled by this Court's decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008).

Amicus Licensing Executives Society (U.S.A. and Canada), Inc. ("LES") expects that the parties and other *amici* will sufficiently address the various aspects of the legal analysis surrounding these questions. As a professional society dedicated to promotion of best practices in IP transactions, IP protection, and IP strategy, LES might be particularly suited to assist the Court with evaluation of the practical impact of its decision.

At a high level, both questions ask whether the Court should expand the scope of patent exhaustion, by overruling either or both of *Jazz Photo* and *Mallinckrodt*, or maintain the status quo, by reaffirming the continued vitality of these holdings. As this brief focuses on the practical impact of the Court's decision, it will treat the questions together and frame the possible outcomes of the Court's decision as two scenarios: Status Quo or Increased Patent Exhaustion.

Under the Status Quo scenario, where the Court reaffirms the holdings of *Jazz Photo* and *Mallinckrodt*, the nature and scope of the patent rights conveyed in a transaction may continue to be controlled flexibly by the parties to that transaction. Among the benefits of the Status Quo is the preservation of freedom to contract and the ability to create tailored and economically-efficient exchanges. As such, the patent rights holder retains freedom to convey the minimum amount of rights desired (be it in terms of territory, term, use, etc.) and the rights acquirer only pays for that minimum-desired amount of rights.

Of course, the flexibility appurtenant to the Status Quo scenario sometimes comes at the cost of complexity, in terms of both the instrument governing the exchange and the negotiation of the exchange. Increased complexity generally means increased costs. And increased complexity might have an unfair result in the event of disparate bargaining power between parties, particularly in the situation where an acquiring party is a lay

purchaser of an article who might not understand the scope of the rights that he acquires.

In the event that the Court overrules either or both of *Jazz Photo* and *Mallinckrodt*, the Increased Patent Exhaustion scenario would result. Potential benefits of Increased Patent Exhaustion are simplicity and certainty. In each situation where patent rights are mandatorily exhausted by the sale of an article embodying the patent, the acquirer knows that his future use or disposition of the article is not subject to a patent-based claim (though it may be subject to other lawful restrictions).

Increased simplicity and certainty, however, often means increased license royalty costs. When rights holders and rights acquirers are no longer allowed the flexibility to tailor a crafted exchange, the exchange is reduced to "all or nothing." If the patent holder knows that she will be completely divested of her rights as part of the exchange, she might charge a premium for her loss, if she pursues the transaction at all. The fully-divested patent holder also loses the ability to parse her rights amongst multiple acquirers, decreasing diversity of access to the rights, as well as the intrinsic value of the rights themselves. A decrease in patent-rights transactions, whether due to increased royalty costs, decreased diversity, decreased value or decreased desirability, could prevent rights acquirers from gaining access to technology and prevent patent holders from maximizing the value of their rights, potentially stifling innovation.

ARGUMENT

I Brief Background on the Value of Patents and Patent Licensing

Patent rights are valuable. At a societal level, this value is recognized in the constitutional foundation of our Country's patent system: "The Congress shall have Power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries ...." U.S. Const., art. I, § 8, cl. 8. The Founding Fathers believed that "ingenuity should receive a liberal encouragement." 5 Writings of Thomas Jefferson 75–76 (H. Washington ed. 1871). The strength of the patent system continues to be a significant public policy concern and has been the focus of significant legislative activity. *See, e.g.*, STRONG Patents Act of 2015, S. 632, 114th Cong. (2015). A strong patent system encourages innovation, is essential to economic success, promotes the chances of success for small companies, provides jobs and economic revenue in patent-intensive industries and allows the United States to maintain its status as the world's innovation leader. *Id.* § 101.

Patent rights are a form of personal property. 35 U.S.C. § 261 ("[P]atents shall have the attributes of personal property."). The property rights conferred by a patent are often described as a diverse "bundle of sticks," and grants of patent rights may be narrowly tailored to suit the business arrangement of the parties by parsing out "sticks" from the patent

owner's bundle of rights. *See* RESTATEMENT (SECOND) OF CONTRACTS § 72 (1981) (explaining public policy benefit of freedom to contract and enforcement of same). As a result, licenses vary widely in the type and extent of restraints included therein. Patent licensing plays a valuable role in encouraging competition and commercially leveraging patent rights, both of which promote further innovation. *See* U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property*, at 5 (2017) ("Field-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible.").

Despite their statutory characterization as personal property, patent rights have been historically characterized as both real property and chattels. *See* Adam Mossoff, *A Simple Conveyance Rule for Complex Innovation*, 44 Tulsa L. Rev. 707 (2009). Accordingly, patent rights can be transferred in the same way real property rights can be transferred—either as an unrestricted conveyance, *i.e.*, an outright assignment, or with geographic or field-of-use restraints, *i.e.*, a geographically restricted assignment or a mere license. *See* 1 DONALD S. CHISUM, CHISUM ON PATENTS § 1-OV (2016); 1 ROGER MILGRIM & ERIC BENSEN, MILGRIM

ON LICENSING §§ 2.32, 2.33 (2016).[2] A thorough consideration of the proper scope of the patent exhaustion doctrine, which limits the scope of patent rights, should include the real property attributes of patents.

The economic benefits of patent rights are indisputable. In 2014, intellectual property intensive industries supported 45.5 million jobs and contributed $6.6 trillion dollars to the United States economy, over one-third of United States gross domestic product. Econ. & Statistics Admin. and USPTO, *Intellectual Property and the U.S. Economy: 2016 Update*, at ii (2016).

The value of patents is rooted in the scope of the rights that they confer. At their core, patents confer a right to exclude others from, *inter alia*, making, using, offering to sell, selling or importing the patented inventions within the United States. *See* 35 U.S.C. § 271(a), *et seq*.

Innovators and patent owners can derive value from their patents by excluding competitors from practicing the patented inventions, thereby gaining a valuable edge in the marketplace. Patent owners can also derive value by licensing their patented inventions to technology implementers.

Through such arrangements, companies extract value from their patents. It is reported that

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[2] For a more in-depth discussion of the real property characteristics of patent rights, and case law development thereof, see Mossoff, *supra*.

Microsoft and Ericsson generate more than $2 Billion in annual licensing revenue, and Qualcomm, regarded as a leader in patent licensing, reportedly generates more than $6.6 Billion in annual licensing revenue. *See* Terry Ludlow, *Trends In Technology IP Licensing*, IPO Law J., Dec. 10, 2014, at 4, *available at* www.ipo.org.

Private industry is not alone in deriving significant value from patents and patent licensing. According to the Association of University Technology Managers ("AUTM") fiscal year 2015 survey, there were almost 6,400 new patent licenses executed by United States universities, hospitals and research institutions in 2015 (an increase of 17.6% over 2014). AUTM, *Highlights of AUTM's U.S. Licensing Activity Survey FY2015*, at 8, *available at* www.autm.net. Similarly, the Biotechnology Industry Organization ("BIO") reports that the economic effect of university and nonprofit patent licensing from 1996 to 2013 was as much as $518 Billion on the United States gross domestic product, and $1,177 Billion on the United States gross industrial output, while creating as many as 3.8 million jobs. Biotechnology Industry Organization, *The Economic Contribution of University/Nonprofit Inventions in the United States: 1996-2013*, March 2015, at 24, *available at* www.bio.org.

Patents, and the licensing thereof, are an important part of the United States economy. The promotion of strong patent rights is vital to the continued economic success of our nation. It is with this background that LES submits the following

analysis of the possible practical outcomes of the Court's decision.

II Maintaining the Status Quo by Reaffirming *Jazz Photo* and *Mallinckrodt* Allows for More Tailored, Though Potentially More Complex, Patent-Rights Transactions

A. The Jazz Photo and Mallinckrodt Decisions

Patent rights are valuable, and the value of those rights is enhanced when the rights holder is able to narrowly parse out its rights to optimize the number of rights acquirers. *See* § I, *supra*.

It is understood that unconditional sales of patented articles within the United States completely exhaust patent rights. *See Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) ("[T]he initial authorized sale of a patented item terminates all patent rights to that item."). Thus, in order to effectively parse their rights, patent rights holders often structure their patent-rights conveyances in ways that avoid patent exhaustion.

First, a rights holder may simply sell goods outside the United States. In *Jazz Photo*, the United States Court of Appeals for the Federal Circuit ("CAFC") recognized that, because the benefits and rights conferred by a United States patent are territorially limited to the United States, so too is the exhaustion of those rights from the sale of an article. *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001).

Second, a rights holder may sell patented articles within the United States, but subject to a use restriction (sometimes referred to as a conditional sale). *See Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 707 (Fed. Cir. 1992). The CAFC noted in *Mallinckrodt*: "[u]nless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law . . .), private parties retain the freedom to contract concerning conditions of sale." *Id.* at 708. In a subsequent decision, the court of appeals further explained the *Mallinckrodt* holding:

> As a general matter, we explained that an unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter. The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the goods. This exhaustion doctrine, however, does not apply to an expressly conditional sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the "use" rights conferred by the patentee. As a result, express conditions accompanying the sale or license of a patented product are generally upheld.

B. Braun Med. Inc. v. Abbott Labs., 124 F.3d 1419, 1426 (Fed. Cir. 1997) (citations omitted).

By avoiding mandatory patent exhaustion through the first sale of a patented article under *Jazz Photo* and *Mallinckrodt*, patent rights holders maintain greater flexibility in setting the royalty rate for the use of patented technology.

B. Applying the Teachings of *Mallinckrodt*, Companies are Able to Craft Efficient License Arrangements

To illustrate the potential licensing efficiency that companies have maintained by applying the *Jazz Photo* and *Mallinckrodt* decisions, the Court should consider real-world licensing scenarios and their likely effect—for example, the scenario detailed by one of the *amici* in this Court's *Quanta* decision. *See* Brief of Qualcomm Inc. as *Amicus Curiae* in Support of Respondent, *Quanta Computer, Inc. v. LG Elecs, Inc.*, 553 U.S. 617 (2008) (No. 06-937) ("Qualcomm *Amicus*").

In this example, a company that holds rights in numerous patents related to wireless communication technology grants royalty-bearing licenses of its patented technology. *See id.* at 4-5, 6-7. Because the rights holder has spent, and continues to spend, great sums of money on research and development, it desires to license its patented technology at a royalty rate commensurate with the contribution of its technology. *Id.* at 22. ("[I]nsufficiently compensating innovators for the actual research and development required to produce cutting edge technologies [would]

slow the introduction of new technologies into the industry, and frustrate the goals of the Patent Act.").

The rights holder desires to license its patented technology to semiconductor chip manufacturers, among other entities. *Id.* at 7-8. The chip made under this license embodies multiple facets of the rights holder's patented technology. *See id.* at 22. This chip might be installed into basic handsets that use relatively few aspects of the patented technology and sell for a low price ($100), or the chip might be installed into feature-rich handsets that use more aspects of the patented technology (such as Internet connectivity) and therefore, sell at a higher price ($400). *Id.* Because the more-expensive, Internet-connected devices use more aspects of the patented technology, the rights holder might want a higher royalty on its technology as implemented in those devices than it desires on the basic devices. *See id.* at 22-23.

Under *Mallinckrodt*, the rights holder is free to unpack its "bundle" of patent rights, granting the chip manufacturer the right to make the chip embodying the patented technology (with a royalty based on the price of the chip) and granting the handset manufacturer the rights to make, use and sell handsets embodying the patented technology (with a royalty based on the price of the handsets). *See id.* at 8, 22. Thus, by strategically implementing *Mallinckrodt* restrictions on the licenses it grants, the rights holder in this example has the flexibility to allocate the royalty for its patented technology among the various players in the production chain. *See id.* at 22. The rights holder finds such an

arrangement an efficient way to "spread[] the financial obligations of patent licensing across the production chain, such that all parties benefiting from the license bear a share of the financial burden proportional to the benefits they themselves derive." *Id.*; *accord* Anne Layne-Farrar, *An Economic Defense of Flexibility in IPR Licensing: Contracting around First Sale in Multilevel Production Settings*, 51 SANTA CLARA L. REV. 1149, 1155 (2011) ("Layne-Farrar") ("Since [intellectual property rights] can embody a bundle of rights, the other pivotal economic concept in [intellectual property rights] licensing: economic efficiency is implicated."). Notably, the licensing arrangement in the example above is structured such that the patent rights are exhausted before the handsets reach the ultimate downstream purchaser of the handsets. *See* Qualcomm *Amicus* at 9.

There is a premium placed on certain advanced features of the patented technology, as at least partially evidenced by the price disparity between the low-featured and higher-featured handsets. *See id.* at 22. Some downstream purchasers are willing to pay the premium for the advanced features and others are not. The lack of exhaustion in the production chain allows that premium to be allocated between the high-featured and low-featured handsets, and therefore, among the downstream purchasers who desire the features without unfairly burdening (or pricing out) those who do not.

There may be other transactions where the acquiring party does not want any patent rights beyond a single-use right, such as the case of

consumable products like the toner cartridges at issue in the instant case or the disposable cameras at issue in *Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010). In these instances, the acquiring party may be quite willing to surrender future use of the disposable articles in exchange for the lower acquisition cost allowed for by patent exhaustion. Of course, if the acquiring party desired to purchase the product with completely exhausted rights, they could pay a bargained-for premium. *See Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 727-28 (Fed. Cir. 2016) (*en banc*) (explaining that Lexmark offered customers non-discounted printer cartridges with no use restrictions).

C. Under *Jazz Photo*, Companies Need Not be Concerned About Exhaustion from Foreign Sales

In addition strategically pricing the royalty on its patented technology via a *Mallinckrodt* restriction, as discussed above, a rights holder may wish to price its technology differently based on geography.

For example, there exists a desire to make Internet-enabled devices available in developing nations. *See, e.g., Our Impact*, Internet.org, info.internet.org/en/impact/ (last visited January 22, 2017) ("Through our connectivity efforts we've brought more than 25 million people online who otherwise would not be and introduced them to the incredible value of the internet."). Therefore, the wireless communication rights holder discussed in the above example may desire to make its patented technology available for inclusion in devices at little (or no cost) in developing nations. *See* Josh Constine,

Facebook And 6 Phone Companies Launch Internet.org To Bring Affordable Access To Everyone, TechCrunch, Aug. 20, 2013, techcrunch.com/2013/08/20/facebook-internet-org/ (last visited January 22, 2017) (listing said rights holder, Qualcomm, as a partner in Internet.org).

Under *Jazz Photo*, the rights holder has the ability to permit its technology to be used in low-cost devices sold in these developing nations without concern that its patent rights in those devices become exhausted. If its patent rights were exhausted, those devices might be imported back into the United States, potentially cannibalizing sales or harming the rights holder's reputation. *Cf. Lexmark*, 816 F.3d at 772 (exploring consequences of international patent exhaustion on patented pharmaceuticals).

Thus, if patent rights are necessarily exhausted by foreign sales, a rights holder might feel compelled to raise his prices to account for the exhaustion of his United States patent rights. This would force foreign purchasers to pay for United States patent rights that they may not want. Moreover, this price increase may make products unprofitable and therefore, unavailable, in certain foreign countries.

As can be seen from the above examples, *Mallinckrodt* and *Jazz Photo* allow patent-licensing flexibility to maximize the efficiency of the transaction, both in terms of use and geography. The downside to the flexibility described above is the potential for complexity in the transaction and a lack of certainty over the true price of goods when limits are placed on use of the product. Such uncertainty

may "hinder the exchange of goods and the dissemination of the innovations underlying those goods." Layne-Farrar, *supra*, at 1155-56. Moreover, the negotiation for (and later, enforcement of) patent rights, particularly in the case of a multi-layered manufacturing and distribution chain, might become extremely complex and costly. *See id.* at 1164- 67.

Thus, in deciding whether to affirm the decisions in ***Mallinckrodt*** and ***Jazz Photo***, this Court should consider the pro-innovation and economic efficiencies described above.

III Increasing the Scope of Patent Exhaustion by Overruling Either or Both of *Jazz Photo* and *Mallinckrodt* May Provide More Certainty and Simplicity at the Expense of Efficiency

Lack of certainty as to the presence of patent protection over an article is one of the principal policy arguments favoring reversal of ***Mallinckrodt*** and ***Jazz Photo***. Indeed, such concerns were voiced by *amici* in the appeal below. *See, e.g.*, Corrected Brief *Amicus Curiae* of Remanufacturing Ass'ns in Support of Affirmance of Cross-Appeal at 7, 22 (Fed. Cir. Nov. 25, 2014). These *amici* claim that only a "bright-line," mandatory patent exhaustion rule, would provide the certainty they require. *Id.* at 23.

In addition to increased certainty as to the absence of patent rights in sold articles, proponents of patent exhaustion cite simplicity and lower transaction costs as another principal benefit of increased exhaustion scope. For example, the Petitioners in the ***Quanta*** case asserted that patent exhaustion "minimizes transaction costs by forcing

the patent owner to exact the full value of its patent rights in one negotiation with the first purchaser, which can then share the burden with the rest of the distribution chain by charging a higher price." Brief for Petitioners at 15, *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (No. 06-937).

These pro-exhaustion benefits are attractive, but they are imperfect. First, the "notice" justification for exhaustion seemingly overlooks this Court's express statement that "the authorized nature of the sale does not necessarily limit [the rights holder's] other contract rights." *Quanta*, 553 U.S. at 637 n.7. In this footnote, the Court signaled that even though patent rights will be exhausted as part of authorized unconditional sales of patented goods, those goods may still be subject to contract claims that might prevent free alienability of the goods without the purchaser necessarily having knowledge.

The "simplicity" argument likewise fails to account for contractual restrictions that might still be imposed on goods. Indeed, the wireless communications rights holder discussed above appears to have a complex series of interrelated contractual arrangements in place to restrict the ability of the downstream parties in the production chain to freely alienate the chips embodying the patented technology. *See* Qualcomm *Amicus* at 7-8.

Of course, the obvious downside to relying on only contract law to achieve the above-described patent licensing flexibility benefits presently available under *Mallinckrodt* and *Jazz Photo* is that contract remedies generally require contractual privity to be enforceable. RESTATEMENT (SECOND) OF CONTRACTS

§ 302 (1981) (explaining that third parties to the contract have a basis for recovery only where they were an intended beneficiary). Patent rights, on the other hand, do not require privity to be enforceable against an infringer. *See Commil USA, LLC v. Cisco Systems, Inc.*, 135 S. Ct. 1920, 1926 (2015); *see also* 1 DONALD S. CHISUM, CHISUM ON PATENTS § 16.01 (2016) (explaining that the right to exclude flows from the making, using, selling or offering for sale "the invention defined by a patent's claims").

Moreover, the inability to control the use of their patented technology beyond the first step of the production chain may deprive rights holders of the flexibility to allocate the patent royalty amongst the various players in the production chain. Qualcomm *Amicus* at 22. In this situation, because the rights holder must secure their entire royalty from the first-step manufacturer (such as the chip manufacturer in the above example), the value of the royalty must be based on that first-step product (i.e., the chip) and not on the value of the downstream product (i.e., the handset). *See id.* at 22-23. Thus, in the above scenario, unless the rights holder was inclined to undercompensate itself for the chips installed into the high-end handsets (potentially discouraging the rights holder from further innovating), the royalty it charges the chip manufacturer might overburden the cost of the low-end handsets. *See id.* An unintended consequence of this scenario might be that the low-end handsets are no longer available for consumers because the uniformly-higher royalty charged on the chips for

both the high-end and low-end handsets renders the low-end handsets unprofitable. *Id.* at 23.

Thus, while simplicity and certainty are benefits of Increased Patent Exhaustion, those benefits come with reduced economic efficiency and diminished freedom to contract. This Court's deliberations should carefully consider these important public policy implications.

CONCLUSION

As can be seen from the above, the Court's decision in this case is likely to have a significant impact on the development and commercialization of patented technology. The Court must consider whether the economic and efficiency benefits of the Status Quo's freedom to contract are outweighed by the increased certainty and simplicity provided by Increased Patent Exhaustion.

Respectfully submitted,

DANIEL S. STRINGFIELD
Counsel of Record
KATHERINE H. JOHNSON
STEPTOE & JOHNSON LLP
115 S. LaSalle, Suite 3100
Chicago, Illinois 60603
312.577.1300
dstringfield@steptoe.com

Counsel for Amicus Curiae Licensing Executives Society (U.S.A. and Canada), Inc.

BRIAN P. O'SHAUGHNESSY
President and Chair
LICENSING EXECUTIVES SOCIETY (USA AND CANADA), INC.
11130 SUNRISE VALLEY DRIVE, SUITE 350
RESTON, VA 20191
202.808.7365

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Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the
United States Court of Appeals
for the Federal Circuit

BRIEF OF *AMICUS CURIAE* MEDICAL DEVICE MANUFACTURERS ASSOCIATION IN SUPPORT OF RESPONDENT

PAUL A. STEWART,
Counsel of Record
JOSEPH S. CIANFRANI
KNOBBE, MARTENS, OLSON & BEAR, LLP
2040 Main Street, 14th Floor
Irvine, CA 92614
(949) 760-0404
paul.stewart@knobbe.com
joe.cianfrani@knobbe.com
Attorneys for Amicus Curiae
Medical Device Manufacturers Association

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I. STATEMENT OF INTEREST OF *AMICUS CURIAE*

The Medical Device Manufacturers Association ("MDMA") is a national trade association based in Washington, D.C., providing educational and advocacy assistance to innovative and entrepreneurial medical technology companies.[1] Since 1992, the MDMA has been the voice for smaller companies, playing a proactive role in helping to shape policies that impact medical device innovators. The MDMA's mission is to promote public health and improve patient care through the advocacy of innovative, research-driven medical device technology.

II. SUMMARY OF THE ARGUMENT

Amicus MDMA submits this brief in support of Respondent to address whether a user of a patented product that was purchased subject to specified conditions on the use of that patented product may violate those conditions without infringing the patent owner's rights.

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[1] This brief is filed with the consent of both parties. Consent was received from counsel for Respondent on December 20, 2016 and counsel for Petitioner provided consent on February 13, 2017. In accordance with Rules of the Supreme Court of the United States 37(6), MDMA states that no party's counsel authored this brief in whole or in part; no party or party's counsel contributed money intended to fund preparing or submitting this brief; and no person, other than the *amicus curiae* or its counsel, contributed money that was intended to fund preparing or submitting this brief.

This Court's decision will affect technologies and products well beyond the refurbished printer cartridges at issue in the present case. Many medical devices are designed, labelled, and expressly sold as "single-use only" for reasons of product efficacy, patient safety and to meet specific FDA requirements. Medical device manufacturers have relied for decades on the conditional-sale doctrine to aid them in ensuring compliance with performance and safety-related conditions they place on the use of their patented devices.

Petitioner Impression Products and other *amici* have suggested that post-sale restrictions are intended merely to enhance the profitability of a patented product to the detriment of downstream purchasers. This argument ignores the patient safety purpose of single-use restrictions in the medical device field. By restricting a grant of patent rights to a single use, medical device manufacturers are able to enforce their patent rights against third party refurbishers with whom they have no contractual relationships.

Quanta, as well as prior decisions of this Court, are fully consistent with single-use restrictions imposed by patentees. The exhaustion doctrine is merely a default legal rule that parties to the sale of a patented product are free to contract around, within the limits of antitrust and misuse law. The courts have consistently recognized that patentees may grant as many or as few of their patent rights as they desire, so long as the patentee does not enlarge its market power beyond the proper scope of its patent rights. Despite calls from

numerous *amici* in *Quanta*, including the United States, to prohibit post-sale restrictions, this Court declined.

Amicus MDMA also responds to arguments from *amici* supporting the Petitioner, and their view that this Court should abandon the reasoning permitting single-use restrictions in order to preserve the economic interests of reprocessing and refurbishing businesses. Arguments predicting the downfall of repair and reconditioning businesses ignore that the conditional-sale doctrine applies only to those patented products containing an express limitation of the implied license attending the sale of the patented product. Given the enormous financial success of the reprocessing industry, the number of products implicated by the conditional-sale doctrine appears to be relatively small, particularly in light of the long history of permitting and enforcing single-use restrictions.

Finally, *Amicus* MDMA respectfully submits that *Quanta* did not overrule the fundamental concept that patent owners may restrict the patent rights conveyed with a sale of a patented product, as long as the patentee does not impermissibly extend the scope of its patent rights. Accordingly, this Court should affirm the Federal Circuit's holding that single-use restrictions are consistent with this Court's precedent.

III. ARGUMENT

A. Single-Use Restrictions On Medical Devices Protect Patient Safety

Medical device manufacturers provide patients and clinicians with access to life-saving medical technologies. Their research and development efforts create innovative technologies and improve existing medical technologies to achieve better patient care. One important technological improvement is the single-use device, which arose in response to patient safety concerns. A single-use device is a medical device designed by the manufacturer for use in a single medical procedure on a single patient, and is intended to be discarded after the procedure.[2] Prior to the 1980s, medical devices were typically reusable.[3] The shape, design, and size of these medical devices, and the fact that the devices were made of materials capable of being sterilized through relatively simple processes, made these devices suitable for multiple uses.[4]

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[2] A.W. van Drongelen, National Institute for Public Health and the Environment (RIVM), *Reprocessing of Medical Devices: Possibilities and Limiting Factors*, at 7 (2008), http://www.rivm.nl/dsresource?objectid=3f8793eb-2e88-41b5-a3cb-3991a6984ec1&type=org&disposition=inline.

[3] Scientific Committee on Emerging and Newly Identified Health Risks (SCENIHR), *The Safety of Reprocessed Medical Devices Marketed for Single-Use*, at 8 (European Commission April 15, 2010), http://ec.europa.eu/health/scientific_committees/emerging/docs/scenihr_o_027.pdf.

[4] *Id.*

Single-use devices arose in response to a heightened awareness of risk from infectious disease transmissions, potentially spread through reusing contaminated syringes and other medical devices that contact a patient's skin or bodily fluids.[5] Technological manufacturing improvements also led to the development of more sophisticated and complex medical devices. For example, new devices developed for minimally-invasive procedures have smaller lumens and more intricate, delicate working mechanisms that can be difficult to clean or sterilize properly.[6] Some new devices are made with less expensive materials to reduce cost, or novel lightweight plastics unable to withstand high-temperature steam sterilization processes.[7] In some cases, the FDA has required a single-use designation.[8] As a result, manufacturers have

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[5] *Id.*

[6] *Id.*

[7] *Id.*

[8] U.S. Food & Drug Admin., *Quality Ssytem Regulation Labeling Requirements (2005)*, https://www.fda.gov/medicaldevices/deviceregulationandguidance/overview/devicelabeling/qualitysystemregulationlabelingrequirements/default.htm ("In the case of single-use sterile devices, some manufacturers include labeling to advise against resterilization and reuse. Some devices are simply not designed or constructed to be recleaned, and may not be capable of withstanding the necessary recleaning and resterilization procedures.")

labeled those devices which they determined cannot be safely reconditioned as "single-use only."[9]

Reusable medical devices designed to be reprocessed are generally manufactured so the device can be completely disassembled and thoroughly cleaned.[10] Manufacturers of reusable devices provide information on proper cleaning agents and procedures, instructions for assembly and disassembly, and appropriate water treatment exposure, to ensure proper reprocessing.[11]

In contrast, with single-use devices, third-party reprocessors may not have the information necessary to reprocess the devices in a manner that will ensure continued patient health and safety. Original manufacturers are not required to provide reprocessors with information regarding the procedures necessary to safely reprocess single-use devices.[12] General procedures for reconditioning and determining the integrity and functionality of single-use devices may not take into account the numerous variables which can affect the viability of a specific

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[9] Scientific Committee on Emerging and Newly Identified Health Risks (SCENIHR), *supra*, at 8

[10] Michelle R. Tinkham, *Reprocessing of Single-Use Devices: Do the Benefits Outweigh the Potential Dangers?*, 5 Perioperative Nursing Clinics 377, 379 (2010).

[11] *Id.*; Francesco Tessarolo et al., *Critical Issues in Reprocessing Single-Use Medical Devices for Interventional Cardiology*, Biomedical Engineering, Trends, Research and Technologies 619, 626 (Malgorzata Komorowska & Sylwia Olsztynska-Janus eds., 2011).

[12] Tessarolo, at 626–27.

reprocessed device.[13] For example, proper cleaning and disinfection of catheters, as well as determining a catheter's structural integrity and functionality, depend on the particular design and the materials used, and therefore vary between different catheters.[14]

Some reprocessed single-use devices may contain contaminants and exhibit reduced quality because the devices were not designed to be reconditioned or reused.[15] Single-use devices are commonly made of plastic to increase flexibility and ease of manufacturing complex designs and to lower costs.[16] New plastic single-use devices are sufficiently durable and accurate for a single use, as intended—but if a plastic device is reprocessed and reused multiple times, the device may be

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[13] *See* Tessarolo, at 622; Peter J. Goss, *Beyond the "Yuck Factor": Product Liability Implications of Medical Device Reprocessing* 7–8 (Washington Legal Foundation Working Paper Series No. 141, Sept. 2006).

[14] Tessarolo, *supra* at 622.

[15] Peter Heeg et al., *Decontaminated Single-Use Devices: An Oxymoron that May Be Placing Patients at Risk for Cross-Contamination*, 22 Infection Control & Hosp. Epidemiology 542, 542 (2001); *see also* Monica Valero da Silva et al., *Safety Evaluation of Single-Use Medical Devices after Submission to Simulated Reutilization Cycles*, 88 J. AOAC Int'l. 823, 828 (2005) ("The imperfections on [single-use device] surfaces observed through SEM [scanning electron microscopy], as well as the presence of *Bacillus subtilis* spore agglomerates and with the microbiological tests results puts into serious questioning the safety of reprocessed medical devices fabricated for 'single use only.'").

[16] van Drongelen, *supra* at 11.

unknowingly compromised.[17] Damage to single-use devices may also occur because the materials or design of a single-use device cannot withstand cleaning and sterilization processes.[18] Finally, testing reprocessed devices may fail to expose devices in which reprocessing resulted in decreased performance.[19] Some single-use devices, such as catheters, have complex designs, making it difficult to predict performance or failure of a particular reprocessed catheter.[20]

Accordingly, a blanket rule that all single-use restrictions may be violated without any consequence under the patent laws will not merely affect the profitability of printer cartridges, but will also affect the ability of medical device manufacturers to ensure

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[17] *Id.*

[18] *Id.*

[19] *See* Eucomed Med. Tech., *Eucomed White Paper on the Reuse of Single Use Devices*, at 13, 37, 40 (Dec. 15, 2009), http://www.medtecheurope.org/sites/default/files/resource_items/files/15122009_MTE_Eucomed%20White%20Paper%20on%20the%20reuse%20of%20single%20use%20devices_Backgrounder.pdf (finding no statistically significant differences in mechanical testing between new and reprocessed harmonic scalpels, but finding that *in vivo* mechanical testing demonstrated significantly decreased performance for reprocessed harmonic scalpels compared with new harmonic scalpels in terms of hemostasis).

[20] *Id.* at 37 ("Another challenge when reusing catheters is that it is difficult to predict when a catheter will degrade to a degree that it will break. When and if depends on the type of polymer used and how it is manufactured. While some plastics degrade over time and show signs of wear others seem to fail spontaneously.").

compliance with safety-based single-use restrictions. At least in the context of medical devices, the single-use restriction is an important tool for protecting public health.

B. Patent Infringement Claims Are An Essential Tool For Ensuring Compliance With Single-Use Restrictions On Medical Devices

Various *amici* argue that contract law, not patent law, is the appropriate vehicle for enforcing post-sale restrictions.[21] Although contract remedies may be available against the original purchasers of the product that agreed to the contractual restriction (and thereby presumably paid a price reflecting the reduced value of the product due to the use limitation), contract law is largely ineffective in enforcing these contractual restrictions against subsequent users who were not parties to the original contract containing the restriction.[22]

Medical device manufacturers typically sell their products directly to hospitals, clinics, and other healthcare facilities. Although some reprocessors are affiliated with hospitals and health care facilities, many are independent companies. Accordingly,

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[21] *See, e.g.*, *Amicus* Br. of the United States at 2; *Amicus* Br. of Huawei Tech. Co., Ltd. at 8–9; *Amicus* Br. of Intel Corp., Dell Inc., and Vizio Inc. at 5.

[22] *Restatement (Second) of Contracts* § 302 (1981) (explaining that third parties to the contract have a basis for recovery only where they were an intended beneficiary); 1 Donald S. Chisum, *Chisum on Patents* § 16.01 (2015).

there is often no contractual privity between the patent owner and the reprocessor. Without contractual privity, the patent owner cannot enforce the single-use restriction under contract law. Even where contractual privity exists between the manufacturer and the reprocessor, contractual remedies may not provide the injunctive relief necessary to prevent improperly reconditioned single-use devices from entering the market.

Amici have also alleged that unless this Court establishes a bright-line patent exhaustion rule extinguishing a patent holder's rights after any sale made by the patent holder, consumers may become liable for every day occurrences, including selling a used car or having a garage sale.[23]

Such a possibility, however, is inherent in patent law, regardless of the outcome of the present case. Patent infringement is a strict-liability tort.[24] Thus, the potential for consumer liability for patent infringement exists with every patent. A consumer may unknowingly purchase a product from an infringer. Or a consumer may purchase a product from a licensee that has sold patented products outside the scope of its license. Such a consumer is liable for infringement,[25] though it is highly unlikely

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[23] *See Amicus* Br. of the Association of Medical Device Reprocessors at 17.

[24] *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1926 (2015).

[25] *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 127 (1938).

that any patentee would find it worthwhile to pursue an ordinary consumer under these circumstances.

Amici have also argued that this Court should overrule decisions permitting post-sale restrictions because it would be unfair to enforce post-sale restrictions against third parties not involved in negotiating and agreeing to the original sales contract.[26] Such *amici* contend that, if post-sale restrictions are imposed on third parties, third parties will need to undertake costly investigations for each item in order to assess whether an item can be reused.[27]

The vast majority of single-use devices state directly on the product, its packaging, and/or its instructions, that the device is for a "single-use only."[28] Even if a used single-use device contains no restriction markings when received by a reprocessor, a basic investigation will inform a reprocessor as to whether the manufacturer restricted the device to a "single-use only." Reprocessors must conduct at least this level of investigation because they need to

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[26] *See Amicus* Br. of Intel Corp., Dell Inc., and Vizio Inc. at 12–13.

[27] *See Amicus* Br. of the Association of Medical Device Reprocessors at 19.

[28] *See Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 702 (Fed. Cir. 1992) ("The device is marked with the appropriate patent numbers . . . and the inscription 'Single Use Only'. The package insert provided with each unit states 'For Single Patient Use Only' and instructs that the entire contaminated apparatus be disposed of in accordance with procedures for the disposal of biohazardous waste.").

obtain all available information about the device prior to investing resources (including filing a FDA 510(k) statement) to recondition the device. Thus, even if the reprocessor is not a party to the original contract, the reprocessor is frequently on notice of any single-use restriction for the device. Moreover, medical device manufacturers could also affirmatively put reprocessors on notice by sending notifications directly to reprocessors identifying products not licensed for multiple uses. Thus, reprocessors would not be left guessing as to whether the patent owner licensed multiple uses.

In any event, the decision below would impose liability on the reprocessor only if it had notice of the single-use restriction.[29] This is consistent with this Court's prescendent requiring notice under similar circumstances.[30]

If this Court holds that the exhaustion doctrine renders all post-sale single-use restrictions ineffective, not only will medical device manufacturers be unable to bring patent infringement claims against third parties whose actions operate beyond the license granted, they will

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[29] *Lexmark Int'l, Inc. v. Impression Prods. Inc.*, 816 F.3d 721, 752 (Fed. Cir. 2016) (en banc), *cert granted*, 137 S. Ct. 547 (2016).

[30] *General Talking Pictures v. W. Elec. Co.*, 305 U.S. 124, 127 (1938) ("as Pictures Corporation [the consumer] knew the facts, it is in no better position than if it had manufactured the amplifiers itself without a license.")

also be unable to enforce ***any*** restrictions or guidelines for reprocessing their devices.[31]

The FDA has stated that "[r]educing the risk of exposure to improperly reprocessed medical devices is a shared responsibility among various stakeholders . . . [including] manufacturers, responsible for providing adequate reprocessing instructions that are user-friendly and proven to work."[32] If all post-sale restrictions are held ineffective, medical device manufacturers will be unable to ensure compliance with the guidelines for safely reprocessing reusable devices.

Amici also argue that the FDA has approved certain single-use medical devices for reprocessing, and allege that manufacturers label devices as "single use" to avoid submitting evidence supporting re-use to the FDA.[33] Despite the FDA's approval of certain reprocessed devices, manufacturers may still possess legitimate concerns that a device labeled for single-use cannot be reused without risking patient safety. While reprocessed devices may appear safe for re-use, testing of reprocessed devices may not uncover devices with decreased performance as a result of reprocessing.[34] Further, predicting failure

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[31] U.S. Food & Drug Admin., *Working Together to Improve Reusable Medical Device Reprocessing*, (2015), http://www.fda.gov/MedicalDevices/ProductsandMedicalProcedures/ReprocessingofReusableMedicalDevices/ucm454626.htm.

[32] *Id.*

[33] *See Amicus* Br. of the Association of Medical Device Reprocessors at 11–12.

[34] *See* Eucomed Med. Tech., *supra* at 13, 37.

and performance of complex single-use devices may be difficult.[35] Thus, a device that complies with FDA safety regulations may be unknowingly compromised by the reprocessing process, resulting in unsatisfactory performance or failure of the device. Further, a manufacturer's reputation can be harmed by low quality reprocessed items.[36] Failures caused by reprocessing can be prevented by using the device in accordance with single-use restrictions. Manufacturers are in a unique position to recognize the potential dangers of reprocessed devices, and may label devices as single use to ensure patients are protected from easily avoidable harm, not as a means to avoid further FDA regulation. Indeed, as the FDA recognizes, not all devices are suitable for reprocessing.

C. Post-Sale Restrictions Are Consistent With This Court's Precedent

Medical device manufacturers rely on their ability to ensure compliance with post-sale use restrictions on patented devices through infringement actions, especially in light of the long tradition of permitting single-use restrictions. Nothing in the *Quanta* decision contradicts the basic premise that, within the limits of antitrust and misuse, patentees are free to grant any license scope they choose when selling a patented product. In *Quanta*, this Court analyzed the contents of the

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[35] *Id.* at 37.

[36] *Lexmark*, 816 F.3d at 752.

specific agreements between LGE and Intel, and held that the agreements did not contain any restrictions on Intel's ability to sell to any third parties. Because there were no restrictions on Intel's ability to conduct sales with any third party, *Quanta* did not implicate the conditional-sale doctrine. Further, single-use restrictions are consistent with this Court's precedent permitting patentees to separately transfer or license a subset of their patent rights, including the right to sell, use, and manufacture devices embodying a patent.

1. *Quanta* Did Not Overrule Post-Sale Restrictions

Although Petitioner contends that *Quanta* overruled all post-sale restrictions, *Quanta* did not address the precedent that expressly permits patentees to contract around the default patent exhaustion rule, despite invitations to do so from *amici*.[37] Concluding that *Quanta* established a "bright-line patent exhaustion doctrine," as other

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[37] *See e.g.*, Br. for the United States as *Amicus Curiae* Supporting Petitioners at 18–24, *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008); *see also* Amelia Smith Rinehart, *Contracting Patents: A Modern Patent Exhaustion Doctrine*, 23 Harvard J. L. & Tech. 483, 503 (2010) ("*Quanta* does not address the viability of *Mallinckrodt* or whether exhaustion doctrine should be considered immutable rather than the default rule."); *see also* Shubha Ghosh, *Carte Blanche, Quanta, and Competition Policy*, 34 J. Corp. L. 1209, 1226 (2009) ("The explanation for the absence is straightforward. The Court [in *Quanta*] is not overruling *Mallinckrodt*.").

amici have suggested,[38] misreads the holding of *Quanta*.

In *Quanta*, this Court held that LGE's patent rights were exhausted due to an unconditional sale.[39] In concluding that an unconditional sale occurred, *Quanta* looked to the licensing agreement at issue, and concluded that "[n]othing in the License Agreement restricts Intel's right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts."[40] This Court then reiterated that "[n]o conditions limited Intel's authority to sell products substantially embodying the patent."[41] Indeed, the license agreement expressly re-affirmed that ordinary patent exhaustion rules would apply to any sale.[42]

This Court therefore held that exhaustion applied because "[n]o conditions limited Intel's authority to sell products substantially embodying

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[38] *See Amicus* Br. of the Association of Medical Device Reprocessors at 21.

[39] *Quanta*, 553 U.S. at 636–37; *see also* William LaFuze, Justin Chen & Lavonne Burke, *The Conditional Sale Doctrine in a Post-Quanta World and its Implications on Modern Licensing Agreements*, 11 J. Marshall Rev. Intell. Prop. L. 295, 309–10 (2011) ("However, since the Court [in *Quanta*] based its ruling on the conclusion that the license agreement between LGE and Intel was unconditioned with regard to sales of Intel products, there was no need for the Court to address the conditional sale doctrine.").

[40] *Quanta*, 553 U.S. at 636.

[41] *Id.* at 637.

[42] *Id.* at 623 ("nothing herein shall in any way limit or alter the effect of patent exhaustion").

the patents," and therefore "Intel was authorized to sell its products to Quanta."[43] Thus, the license and unconditional subsequent sales by Intel exhausted LGE's patent rights because they were authorized, unrestricted sales, not because patent exhaustion is an immutable and unavoidable doctrine.

Moreover, *Quanta* suggested that valid post-sale conditions can be used by a patent owner to alter the default rule for patent exhaustion. Again, this Court specifically stated that, "[n]othing in the License Agreement restricts Intel's right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts."[44] *Quanta*'s focus on this fact suggests that, if a contractual restriction on the purchasers' rights had existed in the license to Intel, the outcome of *Quanta* may have been different.

It is also telling that *Quanta* avoided overruling *General Talking Pictures*.[45] Instead, *Quanta* distinguished *General Talking Pictures* from the facts presented in *Quanta*, stating that, unlike the license in *General Talking Pictures*, which restricted the customers to whom the licensee could sell products, LGE's license did not place any conditions on Intel's sales, and therefore Intel could

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[43] *Id.* at 637.

[44] *Id.* at 636.

[45] *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 304 U.S. 175, 181 (1938).

sell to any third party without restriction.[46] Thus, this Court specifically distinguished *Quanta* from *General Talking Pictures* by focusing on the absence of a restriction in the licensing agreement, instead of summarily concluding that *General Talking Pictures* should be repudiated. Again, this Court's focus on the absence of conditions in the agreements between LGE and Intel further suggests that, if valid restrictions had been present, LGE could have enforced its patent rights against Quanta. If *Quanta* intended hold that all post-sale restrictions imposed through contract are ineffective to alter the default exhaustion rule, there would have been no need to conduct a lengthy analysis of the contracts between LGE and Intel, because the contracts would have no effect on the result.

Petitioner argues *Quanta* overruled prior decisions permitting patentees to alter the default patent exhaustion rule, based on the statement that patent rights were exhausted by "the authorized sale of an article that substantially embodies a patent."[47] However, an "authorized sale" necessarily implies that the sale was either unconditional, or that the condition was met. If the sale was conditional and that condition was violated, the sale would not be "authorized." Interpreting "authorized" to merely require that the patent owner knew about and

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[46] *Quanta*, 553 U.S. at 636 ("[E]xhaustion did not apply because the manufacturer had no authority to sell the amplifiers for commercial use.") (citing *Gen. Talking Pictures*, 304 U.S. at 181).

[47] Br. of the Petitioner at 15-16 (quoting *Quanta* at 638).

accepted the sale at the time the sale was conducted substantially narrows the term beyond its natural meaning. This Court thus recognized that authorization may be conditional, and emphasized that "[n]o conditions limited Intel's authority to sell products substantially embodying the Patents."[48]

2. This Court's Other Precedents Are Likewise Consistent With Post-Sale Restrictions

The conclusion that single-use restrictions are not *per se* impermissible is also consistent with this Court's decisions prior to *Quanta*. While this Court has held that an "authorized" sale exhausts a patent owner's rights, this Court has never held that ***lawful*** post-sale restrictions are ineffective to retain some patent rights. The only such restrictions this Court has held ineffective involved illegal tying or price fixing.[49]

This Court has long recognized a patent owner's freedom to separately confer its rights to manufacture, sell, and use.[50] This Court has

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[48] *Quanta*, 553 U.S. at 637.

[49] *See United States v. Univis Lens Co.*, 316 U.S. 241, 250, 252-254 (1942) (condemning an agreement to "control the resale price of patented articles which he has sold," a type of "price fixing," that violated the Sherman Act). *See also Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917) (condemning a requirement that the patented product be used only with the patent owner's unpatented supplies).

[50] *United States v. Gen. Elec. Co.*, 272 U.S. 476, 490 (1926) ("The patentee may make and grant a license to another to

similarly held that a patentee's restrictions on the right to sell are valid "provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly."[51] Indeed, "the patentee may grant a license upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure."[52] This Court has also permitted patent owners to enter into restricted, conditional licenses that grant only limited authority to the licensee without exhausting all rights in the licensed patents.[53]

Contrary to arguments from various *amici*, this Court's decision in *Motion Picture Patents* did not hold that all post-sale restrictions are ineffective to prevent patent exhaustion.[54] In *Motion Pictures Patents*, a license notice attached to patented movie projectors stated that the purchaser had the right to

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make and use the patented articles, but withhold his right to sell them.").

[51] *Id.*

[52] *Gen. Talking Pictures*, 305 U.S. at 127 (quoting *Gen. Elec.*, 272 U.S. at 489).

[53] *Id.* at 126–27 (upholding enforcement of field-of-use restrictions through licenses divided between those who could sell for commercial purposes and those who could sell for home purposes); *Mitchell v. Hawley*, 83 U.S. 544, 549–50 (1873) (recognizing patent owner might grant manufacturer a license to make patented invention limited to the original patent term and expressly excluding any extension of the term).

[54] *See Amicus* Br. of Costco Wholesale Corp., LG Electronics Inc., Retail Litigation Center, Inc., SK Hyniz Inc., and Western Digital Corporation at 25–26; *Motion Picture Patents*, 243 U.S. at 502 .

use the machine only with motion picture films leased from the patentee.[55] The defendant used the patented machine with films leased from other sources.[56]

This Court held that the patentee's tie-in restriction was invalid because it extended the scope of its patent monopoly to unpatented products.[57] As this Court explained:

> [W]e are convinced that the exclusive right granted in every patent must be limited to the invention described in the claims of the patent, and that it is not competent for the owner of a patent, by notice attached to its machine, to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation, but which are no part of the patented invention.[58]

Thus, the decision in *Motion Picture Patents* did not extend beyond illegal tying, and is consistent with lawful restrictions on patent use which do not impermissibly extend the scope of a patent monopoly.

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[55] *Motion Picture Patents*, 243 U.S. at 506–07.

[56] *Id.* at 507.

[57] *Id.* at 518.

[58] *Id.* at 516.

Similarly, this Court's decision in *Univis* involved an unlawful price-fixing scheme that this Court held violated the Sherman Act.[59] This Court repeatedly emphasized that the patentee was attempting to "control the resale price of patented articles which he has sold."[60] This Court even described the patentee's conduct as a "price fixing" scheme that violated the antitrust laws.[61] Not surprisingly, the Court held that the patentee's unlawful restriction on pricing was unenforceable. The suggestion that *Univis* precludes lawful restrictions on the use of a patented device is simply unfounded.

Far more analogous to the present case is this Court's decision in *General Talking Pictures*.[62] There, the patent owner granted Transformer Company a license to make and sell amplifiers only for the residential market, not the commercial market.[63] In violation of this restriction, Transformer Company sold patented amplifiers to Pictures Corporation for commercial use.[64]

This Court upheld the patentee's right to sue both Transformer Company and Pictures

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[59] *Univis*, 316 U.S. at 252-55.

[60] *Id.* at 250. *See also id.* at 249 ("control the price"); *id.* at 251 ("control the price"); *id.* at 252 ("control the price").

[61] *Id.* at 252.

[62] *Gen. Talking Pictures*, 305 U.S. 124.

[63] *Id.* at 125-26.

[64] *Id.* at 126.

Corporation.[65] Writing for the Court, Justice Brandeis explained that "the patentee may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.'"[66] Because the restriction at issue "was legal," and the amplifiers were made and sold outside the scope of the license, "the effect is precisely the same as if no license whatsoever had been granted."[67] Accordingly, the patent owner was entitled to sue Transformer Company for patent infringement, along with Pictures Corporation which was aware of the restriction on Transformer Company's license.[68]

The single-use restriction at issue here is not distinguishable in any meaningful way. There is nothing unlawful about the restriction; there is no allegation that it violates the antitrust laws or constitutes patent misuse. As in *General Talking Pictures*, the patent owner has restricted a sale merely by declining to part with one of the many patent rights that the patent owner is entitled to sell or keep for itself. This "is reasonably within the reward which the patentee by the grant of the patent is entitled to secure."[69] Accordingly, as in *General Talking Pictures*, the patent owner is free to enforce its patent against the party who purported to sell more rights than it had acquired, as well as the

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[65] *Id.* at 127.

[66] *Id.* (quoting *Gen Elec.*, 272 U.S. at 489).

[67] *Id.*

[68] *Id.*

[69] *Id.*

subsequent purchaser, at least where that purchaser has notice of the restriction.[70]

3. The United States Creates An Unnecessary Distinction Between First Sales Made By Licensees, And First Sales Made By Patentees

In its October 12, 2016 brief in support of the grant of certiorari, the United States acknowledged that "no discrete provision [of the Patent Act] squarely forecloses the Federal Circuit's approach."[71] However, the United States argues that the Federal Circuit's reliance on *General Talking Pictures* was in error.[72] The United States argues that *General Talking Pictures* merely holds that a first sale made by a licensee in violation of the license terms is not an authorized first sale, and therefore does not trigger patent exhaustion.[73] The United States attempts to distinguish *General Talking Pictures* from the present case because Lexmark's first sale, although with conditions, was made by the patentee (which the United States interprets as an "authorized" sale), and thus the patentee exhausted all patent rights in the item post-sale.[74] The Government asserts that *General Talking Pictures* would be relevant to the present case only if a licensee in contract with Lexmark agreed to impose a

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[70] *Id.*

[71] Oct. 12, 2016 *Amicus* Br. of the United States at 9.

[72] Jan. 24, 2017 *Amicus* Br. of the United States at 20.

[73] *Id.*

[74] *See id.* at 19–22.

single-use/no-resale restriction on the cartridges, but failed to impose such a restriction on a third party buyer.[75] In this instance, the Government concedes that the third party buyer who resold or reused the cartridges would be liable for infringement.[76] Thus, the Government creates a distinction based on whether the patentee makes the first sale, or whether the patentee licenses the first sale.

As the Federal Circuit explained, that argument draws an unnecessary and meaningless distinction between a first sale occurring by a licensee, and a first sale occurring by a patentee. If all sales made by a patentee, regardless of restrictions, exhaust a patentee's §271 rights, patentees will be denied a right guaranteed to non-practicing patentees under *General Talking Pictures*.[77] This would give non-practicing entities greater power to maintain patent rights than practicing entities,[78] resulting in non-practicing entities with greater ability to decide and control which sales are "authorized."

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[75] *Id.* at 21.

[76] *Id.* at 22.

[77] *Lexmark*, 816 F.3d at 735, 744.

[78] *Id.* at 744.

D. Post-Sale Restrictions Permit Patent Owners To Efficiently Allocate Their Patent Rights

Patent rights have the characteristics of personal property.[79] The property rights conferred by a patent have been analogized to a bundle of sticks that patent owners are entitled to parse out as they see fit.[80] Thus, patent owners can sell distinct sticks from their bundle of property interests without including the remainder of their sticks.[81] As this Court held in *Adams*, patent owners may transfer the right to use or manufacture separately from the right to sell.[82] This allows patentees to efficiently

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[79] 35 U.S.C. § 261 ("[P]atents shall have the attributes of personal property."); *see also* Adam Mossoff, *A Simple Conveyance Rule for Complex Innovation*, 44 Tulsa L. Rev. 707 (2009).

[80] *Restatement (Second) of Contracts* § 721; Amelia Smith Rinehart, *Contracting Patents: A Modern Patent Exhaustion Doctrine*, 23 Harv. J. L. & Tech. 483, 495 (2010) ("A patent owner also can divide his bundle of rights to exclude others, separating the right to use from the right to sell the patented invention."); Leonard J. Hope, *The Licensed-Foundry Defense in Patent Infringement Cases: Time to Take Some of the Steam Out of Patent Exhaustion*, 11 Ga. St. Univ. L. Rev. 621, 625 (1995) ("A patent is considered, like other property, to be a bundle of rights.").

[81] *Gen. Elec.*, 272 U.S. at 489–90; *Adams v. Burke*, 84 U.S. 453, 456 (1873) ("The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee."); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991) ("[Patent rights are] a bundle of rights which may be divided and assigned, or retained in whole or part.").

[82] *Adams*, 84 U.S. at 456.

grant a limited license of a scope that both parties desire, at a price to which both agree. In other words, at least some purchasers would view a product with a single-use restriction to be worth less to them than the same product with no such restriction. Accordingly, one would predict the limited nature of the license to be factored into the price.[83] Indeed, in this case, purchasers paid less for printer cartridges they agreed to return after a single use.

If all patent rights are conveyed with every sale, without exception, as the Petitioners claim, manufacturers will need to consistently charge higher prices in order to be adequately compensated for the conveyance of the entirety of their patent rights. As a result, hospitals and other health care providers may face increased costs for unnecessary rights.

Further, rendering patentees unable to convey only a subset of their patent rights in a product at the time of sale will not simplify transactions in the medical device industry. If post-sale restrictions are ineffective to alter the scope of the license conveyed with a sale, manufacturers may begin to institute more complex licensing structures to address patient safety. For example, manufacturers may impose contractual penalties to dissuade the transfer of used single-use devices.

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[83] *See B. Braun Med. Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997).

IV. CONCLUSION

The viability of single-use restrictions is not only warranted by this Court's precedent, it also enables medical device manufacturers to promote patient safety by restricting certain patented devices to a single use, and enforcing violations of that restriction against third parties in a patent infringement suit. Doctors, hospitals, device manufacturers, and patients benefit from the simplicity and flexibility of conditional sales. This Court should affirm the Federal Circuit's decision below.

Respectfully submitted,

Date: February 23, 2017

Paul A. Stewart
Counsel of Record
Joseph S. Cianfrani
KNOBBE, MARTENS, OLSON & BEAR, LLP
2040 Main Street, 14th Fl.
Irvine, CA 92614
(949) 760-0404
Attorneys for Amicus Curiae Medical Device Manufacturers Association

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v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR MEDTRONIC PLC AND ZIMMER BIOMET HOLDINGS, INC. AS AMICI CURIAE SUPPORTING RESPONDENT

PAIK SABER
MEDTRONIC PLC
710 Medtronic Parkway
Minneapolis, MN 55432

AMY LYDON
MEDTRONIC PLC
60 Middletown Ave.
North Haven, CT 06473

JOSEPH TOPMILLER
ZIMMER BIOMET
345 East Main Street
Warsaw, IN 46580

KATHLEEN A. DALEY
Counsel of Record
J. DEREK MCCORQUINDALE
FINNEGAN, HENDERSON, FARABOW, GARRETT & DUNNER, LLP
901 New York Ave., NW
Washington, DC 20001
(202) 408-4000
kathleen.daley@finnegan.com

Counsel for Amici Curiae

February 23, 2017

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

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INTEREST OF AMICI CURIAE

Amicus Medtronic PLC is the world's largest medical technology company.[1] With over 85,000 employees, Medtronic is transforming healthcare worldwide, improving outcomes, expanding access, and enhancing value. Medtronic is a leading innovator in the medical-device industry and capitalizes on the intellectual property it generates. Medtronic owns over 15,000 issued patents in the United States and files over a thousand original patent applications annually.

Amicus Zimmer Biomet Holdings, Inc. is a medical technology company that, through its subsidiaries, designs, manufactures, and markets innovative orthopedic and other musculoskeletal devices for surgeons around the world. Zimmer Biomet has been a driving force in the musculoskeletal healthcare industry for nearly 90 years and sells its products in 100 countries worldwide. Like Medtronic, Zimmer Biomet holds and practices a significant number of patents in the United States, and that number grows every year.

The first question presented in this case is whether a patentee may invoke patent law to enforce restrictions on the use or resale of a patented article after an authorized conditional sale (with post-sale restrictions) of the article in the United States. As leaders in the medical-device industry, amici Medtronic and Zimmer Biomet file this brief to explain how the

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[1] Pursuant to Rule 37.6, amici affirm that no counsel for a party authored this brief in whole or in part, no such counsel or a party made a monetary contribution to fund its preparation or submission, and no person other than amici or its counsel made such a monetary contribution. Respondent Lexmark International, Inc., filed a letter of blanket consent to amici. Petitioner Impressions Products, Inc., granted consent on February 22, 2017 by electronic mail, a copy of which is submitted herewith.

availability of patent remedies to enforce single-use restrictions on medical devices promotes patient safety and helps original device makers protect their reputation and goodwill. Amici take no position on the second question presented.

SUMMARY OF ARGUMENT

In the medical-device industry, devices come in two forms—single-use and reusable. Many crucial medical devices for today's physicians are single-use devices. They are designed and tested only for one use or for use on a single patient during a single procedure, and not for subsequent cleaning, resterilization, and reuse. Although safe when used as recommended by the manufacturer, single-use medical devices may have complex structures that were not designed with repeated cleaning, resterilization, and reprocessing in mind. In addition, single-use medical devices may include components that were not designed to withstand multiple uses.

This is in contrast to reusable medical devices, sometimes called multi-use devices. Reusable medical devices are specifically designed for repeated use. Design choices relating to efficacy, durability, and ease of cleaning, disinfection, and sterilization of various components are selected with reprocessing in mind. Manufacturers include cleaning instructions with reusable medical devices that explain which reprocessing methods will allow the device to be reused without degrading it. Once used, medical providers may send their reusable medical devices to the manufacturer or third-party reprocessing companies, who clean, disinfect, and sterilize the devices according to the manufacturer's instructions.

Although single-use medical devices are not designed for reprocessing, third-party reprocessing companies with no relationship with the original manufacturer nevertheless collect certain used single-use medical devices, reprocess them, and sell them at a cost lower than a new single-use device. The original manufacturers, however, need not provide the Food and Drug Administration (FDA) with procedures for proper resterilization and reuse since single-use medical devices are not designed for reprocessing. As a result, those third-party reprocessors may not have cleaning instructions, complete design specifications, and other guidance from the original manufacturer to determine whether a single-use medical device, though not designed for reuse, would be amenable to reprocessing.

And because single-use medical devices are continually being improved, third-party reprocessors face additional problems when trying to reuse a medical device designed for a single use. For example, manufacturers regularly make design changes, which run the gamut from complete redesigns to minor reengineering of internal components to changes in raw materials or material suppliers. While FDA approval or premarket clearance is required for significant changes, minor changes instead require an internal letter to the file or notification to the FDA after the fact in a periodic report, depending on the device type. See 21 C.F.R. §§ 807.81(a)(3), 814.39. As a result, third parties, such as unauthorized reprocessors, may not know all the design changes made to a single-use medical device.

Even minor design changes may affect whether and how a medical device may safely be reprocessed, and this is especially true for a medical device that was designed for only a single use, such as a surgical vessel

sealer, cardiac catheter, or optical trocar. In addition, single-use restrictions are often used to ensure compatibility between the single-use device and associated medical equipment. Therefore, a third-party reprocessor who has reprocessed a single-use medical device may be unaware of design changes that necessitate a revised reprocessing regime or make reprocessing of that single-use medical device even less feasible, or that impact compatibility with other associated medical equipment.

When there is a problem with a reprocessed single-use medical device, the original manufacturer's reputation is at stake because a reprocessed medical device still retains the original manufacturer's markings and trademarks even though the reprocessor adds an additional mark to the device. As a result, when a reprocessed medical device fails, that problem can be wrongly associated with the original manufacturer in the eye of the customer. Reprocessed medical devices are frequently returned to the original manufacturer despite it not having serviced, validated, or sold the reprocessed devices that failed. This causes confusion in the market as to the source of the reprocessed medical device and tarnishes the original manufacturer's goodwill.

The continued availability of patent remedies to enforce single-use restrictions is important to original manufacturers for guarding against these risks and protecting their reputations. Because patent remedies may deter unauthorized third-party reprocessing, used single-use medical devices can be discarded as intended or funneled back to their original manufacturer. Contract law alone cannot provide the same incentives, because the manufacturer and reprocessor ordinarily lack contractual privity. Removing the

protection that patent law provides to enforce clearly conveyed, single-use restrictions on medical devices would likely cause reprocessing of single-use medical devices to increase, leading to more confusion in the marketplace and potentially eroding the original manufacturer's reputation and goodwill.

Concern that the availability of patent remedies to enforce single-use restrictions on medical devices will end the reprocessing industry is overstated. Manufacturers have provided medical devices on the condition they be limited to a single use for decades, and these restrictions have been enforceable under the patent laws for a quarter of a century. Yet during that time, the market for reprocessing multi-use medical devices has flourished. Allowing manufacturers to continue to enforce single-use restrictions under the patent laws incentivizes reprocessors to keep their efforts focused on medical devices intended to be reusable.

While third-party reprocessors argue that reprocessing could provide a lower-cost alternative to purchasing brand-new single-use medical devices, the overall costs and benefits associated with reusable and single-use medical devices are more complicated than that. A market exists for both single-use and reusable medical devices, and can adjust for the existence of single-use restrictions by devaluing products that have such restrictions. There is no reason to remove available patent remedies for single-use medical devices simply to achieve a perceived lower-cost alternative. The market can already dictate those terms under the current system. In other words, the market for single-use and reusable medical devices is robust and functioning without the need for this Court to intervene and restructure the reprocessing industry, which by its own account has been booming.

ARGUMENT

THE AVAILABILITY OF PATENT REMEDIES TO ENFORCE SINGLE-USE RESTRICTIONS ON MEDICAL DEVICES BENEFITS PATIENTS AND HELPS TO PROTECT THE ORIGINAL MANUFACTURER'S REPUTATION AND GOODWILL

A. Increasing Unauthorized Reprocessing of Single-Use Medical Devices Could Risk Patient Harm

1. Some medical devices are specifically designed to be reprocessed and reused. These are referred to as reusable or multi-use devices. Medical providers and hospitals often contract with third-party reprocessing businesses to clean their reusable medical devices.

The development process for reusable medical devices "often includes multiple redesigns and compromises" related to "the functionality and dimensions" in an effort to produce a device that "can be reprocessed, where possible with automated processes." Eucomed, *White Paper on the Reuse of Single Use Devices* 12 (2009) (Eucomed White Paper), <tinyurl.com/eucomedwhitepaper>. The FDA notes that "[m]anufacturers of reusable devices should consider device designs that facilitate easy and effective cleaning, as well as any necessary disinfection or sterilization by the users." FDA, *Reprocessing Medical Devices in Health Care Settings: Validation Methods and Labeling* 4 (2015).

Manufacturers are cautioned that, "[f]rom the earliest stages of device design and engineering, [they] should consider alternative designs to facilitate effective reprocessing (e.g., replace features that are challenging to reprocess with single-use parts; include flush ports; specify and/or provide dedicated cleaning

accessories)." *Id.* The manufacturer must also develop cleaning instructions to accompany the reusable medical device. *Id.* at 4-22. As a result, in order to facilitate effective subsequent cleaning and resterilization, the design process for reusable devices can be complicated as well as time consuming and costly.

2. In contrast to reusable devices, a single-use medical device is intended by the original manufacturer for one use or on a single patient during a single medical procedure. The product packaging for a medical device will typically state whether the device is designated for a single use, and the device itself may carry a label to that effect too. Medical-device manufacturers are responsible for making that designation, which depends primarily on whether the device was designed and validated to be reprocessed for multiple uses (i.e., the cleaning, disinfecting, and sterilizing of a used device).

For single-use medical devices, because manufacturers need not focus on facilitating reprocessing, they can develop complex devices that may not lend themselves to repeated use or easy cleaning after the initial use. And the manufacturer need not develop a protocol for cleaning and reprocessing a single-use medical device, or provide dedicated cleaning accessories. Instead, the manufacturer can focus its design efforts solely on optimizing the safety and effectiveness of the device for the intended single use. As a result, single-use medical devices are safe, "reliable," "enable technically complex operations to be performed," and may be "easier to use" than their reusable counterparts. Zvi Fireman, *Biopsy Forceps: Reusable or Disposable?*, 21 J. Gastroenterology & Hepatology 1089, 1090 (2006); A.W. van Drongelen & A.C.P. de Bruijn, Dutch Nat'l Inst. for Pub. Health & the Env't, *Reprocessing of*

Medical Devices 9 (2008) (Dutch Report), <tinyurl.com/dutchreprocessingreport>. Many surgeries "could not be performed or would be considerably more invasive and riskier" without the availability of single-use medical devices. Dutch Report at 9.

Despite the differences between reusable and single-use medical devices, third-party reprocessors collect and clean certain used single-use devices and sell them for reuse. These reprocessors must seek premarket clearance from the FDA in the form of a "510(k)" premarket notification submission or a report seeking premarket approval containing, among other information, validation data to distribute reprocessed single-use medical devices. The FDA considers such reprocessors to be "manufacturers" of those cleared or approved reprocessed devices, subject to the traditional regulatory framework applicable to medical-device manufacturers, including the requirement to register their facilities and list the devices they distribute with the FDA, 21 C.F.R. Part 807; properly label the device, 21 C.F.R. Part 801; develop and implement a quality system, 21 C.F.R. Part 820; comply with medical-device reporting obligations, 21 C.F.R. Part 803; and report certain corrections and removals of previously distributed devices to the FDA, 21 C.F.R. Part 806.

Even with the FDA regulating reprocessed single-use medical devices, there could still be gaps in the process that introduce risk because third-party reprocessors of single-use devices often do not have full access to all design changes made by the original manufacturer. Manufacturers are continually innovating medical devices and regularly making design changes, ranging from complete redesigns to the minor reengineering of internal components, or changing

raw materials or material suppliers. In doing so, manufacturers must follow strict quality system regulation requirements to evaluate planned changes (including through appropriate testing), document those changes in a design history file, and maintain that file for future reference as well as FDA inspection. See 21 C.F.R. §§ 820.30, 820.180.

While significant changes require FDA clearance through the premarket notification 510(k) process or premarket approval, minor changes instead require an internal letter to the file or submission to the FDA in a periodic report. See FDA, *Deciding When to Submit a 510(k) for a Change to an Existing Device: Guidance for Industry and Food and Drug Administration Staff* (1997); FDA, *Deciding When to Submit a 510(k) for a Change to an Existing Device: Draft Guidance for Industry and Food and Drug Administration Staff* (2016); see also 21 C.F.R. § 814.39. Reprocessors may thus be unaware of some design changes made to a single-use medical device. For example, a manufacturer may change a component material or a surfacing process that, while not impacting the device in a single use context, may have different implications when subject to repeated use or reprocessing techniques such as sterilization. And because even a minor change may affect whether and how a medical device may be safely reprocessed, reprocessors cleared or approved to reprocess a single-use medical device may be unaware of all of the changes that could affect the reprocessing regime.

Amici have faced this problem first-hand. In 2016, Medtronic issued a routine software update for one of its medical generators used to power single-use surgical tools. After that update, certain older tools became incompatible with the generator. But an

unauthorized third-party reprocessor, unaware of the software update, continued to sell those older tools for use with the generator and eventually was forced to recall them. See Health Canada, *Recalls & alerts: LigaSure Blunt Tip Laparascopic and Impact Open Sealer/Divider* (Dec. 13, 2016), <tinyurl.com/strykerligasurerecall>. If that problem had been encountered during a surgical procedure, complications could have ensued, such as the surgeon being forced to wait for a new vessel-sealing instrument while the patient was on the surgical table and at risk for infection.

Even for design changes that require 510(k) clearance or premarket approval by the manufacturer, which are therefore publicly disclosed by the FDA, unauthorized reprocessors typically will not have access to detailed information about the change. The FDA 510(k) Premarket Notification and PMA Databases only show limited information relating to changes made to devices cleared through the 510(k) process or approved through a supplemental premarket approval. In order for the reprocessor to obtain more information relating to the changes made, the reprocessor must complete a full Freedom of Information Act request, which may take months or years. See FDA Freedom of Information Annual Report 2014. Even when the unauthorized third-party reprocessor eventually receives the 510(k) submission or report seeking premarket approval, the 510(k) or premarket approval report will typically be redacted to protect the original manufacturer's confidential commercial and trade-secret information.

Reprocessors with no relationship to the original manufacturer face additional hurdles when seeking to reprocess a single-use medical device. They have little insight into the design features and intent of the

medical-device manufacturer other than what is available from physical inspection of the device and the FDA 510(k) Premarket Notification and PMA Databases. Medical-device manufacturers design their single-use product with specifications, materials, and validated manufacturing processes that provide a reasonable assurance of the device's safety and effectiveness. Without that product-specific information, these third-party reprocessors may be forced to disassemble and reverse-engineer the device as best they can to determine whether and how a given single-use medical device can be reprocessed. Lacking the manufacturer's design knowledge, a third-party reprocessor may fail to recognize all of the places where debris and potential contaminants may collect on the device. See Michelle R. Tinkham, *Reprocessing of Single-Use Devices: Do the Benefits Outweigh the Potential Dangers?*, 5 Perioperative Nursing Clinics 377, 379 (2010) (Tinkham) ("This information may be difficult to acquire because many OEM [original equipment manufacturer] companies claim that reprocessors do not have access to their proprietary product specifications.").

It has also been recognized that single-use medical devices may have structural features that complicate effective reprocessing. Those devices can be "more delicate and physically complex than reusable devices." K. Roth et al., *Specific Hygiene Issues Relating to Reprocessing and Reuse of Single-Use Devices for Laparoscopic Surgery*, 16 Surgical Endoscopy 1091, 1091 (2002). Medical devices with sharp angles, hinges, coils, or long or narrow cavities may create particular challenges for reprocessing. See U.K. Meds. and Healthcare Prods. Reg. Agency, *Single-Use Medical Devices: Implications and Consequences of Reuse* 7 (2013), <tinyurl.com/gwnznv8>. These are just some of

the challenges to reprocessing a single-use medical device so that it is safe and effective.

The original manufacturer, with its specific knowledge of the product, remains in the best position to know the extent to which a single-use device is amenable to reprocessing. Diluting or eliminating a manufacturer's ability to enforce single-use restrictions could exacerbate the risks posed by third-party reprocessing of single-use medical devices.

B. The Original Manufacturer's Reputation and Goodwill Are Compromised When an Unauthorized Reprocessor Reprocesses and Resells a Single-Use Device

When problems arise with reprocessed medical devices, the reputation of the original manufacturer may be injured despite not having designed the product for multiple uses or reprocessing and not having approved of the method of reprocessing. And although reprocessors are required to place their own mark on the reprocessed device, the reprocessed device still retains the mark of the original manufacturer as well, leading to confusion in the market and reputational injury. 21 U.S.C. § 352(u) (2012); FDA, *Compliance with Section 301 of the Medical Device User Fee and Modernization Action of 2002—as amended*, <tiny url.com/ j4jt79w>. The Federal Circuit identified similar facts underlying its *Mallinckrodt* decision twenty-five years ago. *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700, 702 (Fed. Cir. 1992) (after unauthorized reprocessing by Medipart, the devices were "shipped back to the hospitals," but "still bear[ing] the inscription 'Single Use Only' and the trademarks 'Mallinckrodt' and 'UltraVent'").

The confusion in the market as to the source of reprocessed single-use medical devices is demonstrated by the fact that if third-party reprocessed devices fail during procedures, they are often returned to the original manufacturer instead of to the unauthorized reprocessor that last serviced it. Such a situation leaves the customer with the mistaken impression that the failure is due to a problem with the originally manufactured device when, in fact, the problems may have arisen through reprocessing or repeated use. This confusion inevitably harms the goodwill that an original manufacturer has developed over time and damages its reputation with customers.

Original manufacturers are also frequently asked to investigate problems with their marked devices, only to determine that the devices in question were reprocessed by third parties not authorized by the original manufacturer. Oftentimes, a device failure is reported to the original manufacturer, but it is difficult to investigate since the reprocessed device has not been returned and cannot be tracked down. As a result, it is not always possible to properly link a patient injury to a reprocessed device. See Tinkham at 379-80 (noting that many original device manufacturers "have performed testing of reprocessed versions of their products and have found many issues," and that "[d]ue to poor tracking and reporting processes within [healthcare] facilities, . . . some patient injuries may not be linked to a reprocessed item"). This leaves the original device manufacturer compromised because it cannot evaluate whether the problem was attributable to its device or a third-party reprocessor.

Also, in order to obtain clearance from the FDA, a reprocessor has to show that the reprocessed single-

use device is "substantially equivalent" to the originally manufactured device or "any device of that type." FDA, *Medical Device User Fee and Modernization Act of 2002, Validation Data in Premarket Notification Submissions (510(k)s) for Reprocessed Single-Use Medical Devices* 4, 9 (2006); 21 C.F.R. § 807.87. But a reprocessed device that the FDA has determined to be substantially equivalent to the original single-use device may still not meet the full spectrum of the original manufacturer's requirements.

For example, a manufacturer may have a requirement that a knife or cutting edge have a particular degree of sharpness. That sharpness could degrade with reprocessing. And while the blade may still be substantially equivalent to the original device, it may not meet the manufacturer's very high standard. As another example, a manufacturer may provide a specific nano-coating on the jaws of a single-use surgical instrument, which improves, but is not integral to, the performance of the instrument. The nano-coating cannot withstand reprocessing. As a result, when that instrument is reprocessed, the improved performance resulting from the nano-coating may not be maintained. Or, a manufacturer may have requirements regarding the finish on a handle. That finish could become blemished or discolored after reprocessing. This may not be something that affects the safety and effectiveness of a product but does impact the manufacturer's brand and reputation for a certain quality product. Thus, the reprocessed device, while cleared by the FDA, may not perform in every respect as the original manufacturer intended. This leads to further problems for the original manufacturer since that reprocessed device is being sold with its markings still on the device.

The reputational harm resulting from this practice led a trade group of many original manufacturers to file a Citizen Petition with the FDA to stop it. The trade group sought to have the FDA require third-party reprocessors of single-use medical devices to remove identifying marks of the original device manufacturer, including any references in the label. But the FDA denied the request. See FDA, *Medical Devices; Guidance on Labeling of Reprocessed Single Use Devices; Request for Comments and Information* (2001), <tinyurl.com/zsdh3rd>. So FDA regulations alone do not eliminate the potential for market confusion based on a third-party reprocessor's actions.

Removing protections that a patent provides in enforcing clearly conveyed single-use restrictions would only increase these harms to an original device manufacturer's reputation. If the "long-settled view [is] that the essence of a patent grant is the right to exclude others," *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 (1980), then, as the Federal Circuit noted, the ability to do so in order to safeguard a company's reputation is "hardly unrelated to the interests protected by the patent law," *Lexmark Int'l, Inc.* v. *Impression Prods., Inc.*, 816 F.3d 721, 752 (Fed. Cir. 2016) (en banc), *cert. granted*, 137 S. Ct. 546 (2016). The Federal Circuit acknowledged this legitimate concern facing original device manufacturers and recognized the right to exclude in this context, particularly because it touches on reliability and patient safety. *Id.* ("A medical supplier in Mallinckrodt's position plausibly may have similar reason to believe that reuse, when not under its own control, carries a significant risk of poor or even medically harmful performance, to the detriment of its customers and its own reputation."). FDA regulations lack the necessary provisions to protect these reputational interests, and

contract law alone cannot provide relief because the manufacturer and reprocessor ordinarily lack privity. Single-use restrictions are critical to helping original manufacturers prevent marketplace confusion and the resulting damage to reputation.

C. The Enforceability of Single-Use Restrictions on Medical Devices Has Not Destroyed the Reprocessing Industry and Is Good for the Healthcare Industry

1. Various amici supporting petitioner, including the Association of Medical Device Reprocessors Association (AMDR), AMDR Br. 16-21, argue that the availability of patent remedies to enforce single-use restrictions will spell the end of secondary markets for used products. That has certainly not been the case with medical devices.

In fact, the AMDR boasts that reprocessing medical devices is a successful industry in the United States, AMDR Br. 9-10, notwithstanding that the Federal Circuit's conditional-sale doctrine in patent cases has been binding precedent dating back to *Mallinckrodt*. It cannot be that the *Mallinckrodt* decision was simply ignored all those years, as AMDR suggests, AMDR Br. 5, 14; on the contrary, it was heavily cited and frequently reaffirmed. *E.g.*, *Princo Corp. v. ITC*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) (en banc); *Monsanto Co. v. McFarling*, 302 F.3d 1291, 1298 (Fed. Cir. 2002), *cert. denied*, 537 U.S. 1232 (2003); *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997). So the Federal Circuit's recent *Lexmark* decision is not likely to suddenly "erase medical device reprocessing," as the AMDR claims, AMDR Br. 3, because it merely "reaffirm[s] the principles of [its] earlier decisions" that have been the controlling law for decades. See *Lexmark*, 816 F.3d at 726. The *Mallinckrodt* era

coincides with a period of growth for reprocessors. See AMDR Br. 3, 9-10.

2. There is a good reason why reprocessors generally have been able to thrive alongside the conditional-sale doctrine: medical providers want at least some products they can reuse or resell. In other words, there is market demand for *both* reusable and single-use medical devices. That demand naturally drives original manufacturers to supply reusable medical devices in the first instance, in addition to single-use medical devices. And that in turn opens the door for the reprocessing industry to service reusable medical devices.

What is more, the fact that medical providers desire some reusable medical devices demonstrates that the market places some value on reusability. Presumably, then, the market adjusts to the existence of single-use restrictions by devaluing products so restricted. Indeed, that is exactly what happened with respondent's ink cartridges: the reusable version fetches a price "roughly 20 percent" higher than the single-use version. Pet. App. 10a. In the medical device space, a similar phenomenon has been documented. See Eucomed White Paper at 6 ("Multiple use devices would normally command a significant premium over single use devices . . . ."). The touted efficiency and environmental benefits to reprocessing, moreover, must be weighed against the considerable resources consumed to make devices reusable. Compare *id.* at 7 ("[A]nalyses of the environmental impact of single use devices should also consider the significant resources (e.g. chemicals) needed and the energy consumed during the refurbishment of devices."), with AMDR Br. 3, 5. See also Philip Jacobs et al., *Economic Analysis of Reprocessing Single-Use Medical Devices: A Systematic Literature Review*, 29 Infection Control and Hospital

Epidemiology 297, 301 (2008) (surveying economic literature to assess the costs and benefits of reusing single-use medical devices and concluding that "[o]ur review indicates that the cost-effectiveness of reusing single-use medical devices is not established").

Enforceable single-use restrictions ensure that both single-use and reusable medical devices are available in the market. Absent patent remedies, contract law and FDA regulations alone do not fully address all potential harms created by unauthorized reprocessing of single-use devices. Overturning the line of authority subjecting unauthorized single-use reprocessors to liability under 35 U.S.C. § 271 will undoubtedly increase the frequency of such activities. The status quo permitting enforceable single-use restrictions provides a net social benefit. It provides ready access to affordable medical devices while minimizing risk to patient safety. At the same time, it maintains the current functioning market and incentivizes the reprocessing industry to focus its efforts on those reusable devices that are designed for reprocessing.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

PAIK SABER
MEDTRONIC PLC
710 Medtronic Parkway
Minneapolis, MN 55432

AMY LYDON
MEDTRONIC PLC
60 Middletown Ave.
North Haven, CT 06473

JOSEPH TOPMILLER
ZIMMER BIOMET
345 East Main Street
Warsaw, IN 46580

KATHLEEN A. DALEY
Counsel of Record
J. DEREK MCCORQUINDALE
FINNEGAN, HENDERSON, FARABOW, GARRETT & DUNNER, LLP
901 New York Ave., NW
Washington, DC 20001
(202) 408-4000
kathleen.daley@finnegan.com

Counsel for Amici Curiae

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IMPRESSION PRODUCTS, INC.,
PETITIONERS,

V.

LEXMARK INTERNATIONAL, INC.,
RESPONDENT.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* MITCHELL HAMLINE SCHOOL OF LAW INTELLECTUAL PROPERTY INSTITUTE IN SUPPORT OF PETITIONERS

R. CARL MOY,
Counsel of Record
Mitchell Hamline School of Law
Intellectual Property Institute
875 Summit Avenue
Saint Paul, MN 55105
(651) 290-6344

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INTEREST OF *AMICUS CURIAE*[1]

The Intellectual Property Institute is an entity within Mitchell Hamline School of Law. The mission of the Institute is to foster and protect innovation through education, research, and service initiatives. Among its activities, the Institute advocates for the responsible development and reform of intellectual property law, including patent laws and the patent system of the United States. A purpose of the Institute is to raise issues and arguments in light of the public interest and the best interests of the patent system as a whole. The Institute has no financial interest in any of the parties to the current action.

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[1]Pursuant to Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. Additionally, counsel for both parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court.

SUMMARY OF ARGUMENT

This Court has extensively analyzed the exhaustion of patent rights via domestic sale since the 19th Century.[2] The corresponding law reached a turning point in 1912-13, when both this Court and Congress settled on a reading of the patent statute that interprets the patent owner's rights narrowly.[3] That narrow reading has since become cemented, forming the basis for a great deal of patent law that is now settled.

The Federal Circuit's treatment of domestic exhaustion is ignorant of this history. Its treatment therefore displays predictable flaws. The Federal Circuit relies on sources that are no longer current. Other sources it misinterprets. The property-based rationale that it adopts has been expressly, definitively discarded by both this Court and Congress.

For the reasons explained herein, affirming the Federal Circuit's holding would pull apart an extensive body of modern patent law.

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[2] *See, e.g., Adams v. Burke*, 17 Wall. (84 U.S.) 453 (1873); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895); *Heaton-Peninsular Button Fastener v. Eureka Specialty Co.*, 77 F. 288 (6th Cir. 1896).

[3] *See, e.g., Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912); *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913).

ARGUMENT

A. This Court has Already Discarded the Federal Circuit's View of Domestic Exhaustion

The Federal Circuit's analysis of domestic exhaustion depends on various premises. For example, the court equates the patent owner's patent right with "property" in its broad sense, characterizing the various aspects of control as "sticks in a bundle."[4] It also reads the term "authority" in section 271 of Title 35, U.S.C.,[5] as referring solely to authorizations found elsewhere in the patent statute, or stated by the patent owner expressly.[6]

These premises are invalid. As the history of domestic exhaustion shows, by the early 20th Century United States firmly settled on a conception of domestic exhaustion that is inconsistent with the Federal Circuit's reasoning.

For example, it became settled in the third quarter of the 19th Century that the patent owner's sale of a item covered by a patent would, unless expressly restricted in some way, transfer to the purchaser full title to the item. As a result, in such situations the

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[4] *Lexmark Int'l, Inc. v. Impression Prod., Inc.*, 816 F.3d 721, 741 (Fed. Cir. 2016) (*en banc*).

[5] 35 U.S.C. § 271(a).

[6] *Lexmark Int'l*, 816 F.3d at 732-734.

patent owner could not restrict the purchaser's subsequent use of the item. The patent owner also could not restrict resale, or uses by the re-purchaser.

Patent owners reacted to this development by stating such restrictions expressly.[7] They tried to impose restrictions that included the geographic location where the patented item could be used,[8] where it could be resold,[9] whether it could be reused,[10] and whether it could be use only with supplies obtained from the patent owner.[11]

Courts first disagreed whether these restrictions were effective.[12] Eventually, though, for a time a majority of decisions held that the restrictions could be enforced, even against remote re-purchasers.

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[7] *See, e.g., Mitchell v. Hawley,* 83 U.S. 544 (1872).

[8] *See, e.g., Adams v. Burke,* 17 Wall. (84 U.S.) 453 (movement and use of item by re-purchaser).

[9] *See, e.g., Keeler,* 157 U.S. 659 (movement and resale of item re-purchaser).

[10] *See, e.g., Am. Cotton Tie v. Simmons,* 106 U.S. 89 (1882) (subsequent use held impermissible reconstruction).

[11] *See, e.g., Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.,* 152 U.S. 425 (1894) (replenishment of element recited in patent claim); *Heaton-Peninsular Button Fastener,* 77 F. 288 (required purchase of unpatented supplies).

[12] *See, e.g., Adams v. Burke,* 17 Wall. (84 U.S.) 453 (movement and use of item by re-purchaser); *Keeler,* 157 U.S. 659 (movement and resale of item re-purchaser).

These early decisions reasoned that the patent owner could transfer less than full title to the item. As a result, every other re-purchaser took the same limited title, and was subject to the same restriction. The lead case in this development is acknowledged to be *Heaton-Peninsular Button Fastener*[13] an 1896 Sixth Circuit written by later-to-be Justice Lurton. In that decision, the court gave effect to a restriction requiring re-purchasers of the patented items to use the items only with unpatented supplies obtained from the patent owner.

These early decisions assumed that the patent right could be analogized to property extensively. Essentially, they permitted patent owners to impose restrictive covenants that ran with the title to patented chattel.

As one would expect, patent owners quickly and creatively explored how such restrictive covenants could be used to leverage their patent rights in the marketplace. They restricted resale price,[14] and required that users return to the patent owner for

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[13] *Heaton-Peninsular Button Fastener,* 77 F. 288.

[14] *See, e.g., Edison Phonograph Co v. Kaufmann,* 105 F. 960 (C.C.W.D. Pa. 1901); *Edison Phonograph Co. v. Pike,* 116 F. 863 (C.C.D. Mass. 1902); *E. Bement & Sons v. National Harrow Co.,* 186 U. S. 70 (1902); 186 U.S. 70 (1902) (patent defense to antitrust assertion); *Victor Talking Mach. Co. v. The Fair,* 123 F. 424 (C.C.A. 7th Cir. 1903); *National Phonograph Co. v. Schlegel,* 128 F. 733 (C.C.A. 8th Cir. 1904); *The Fair v. Dover Mfg. Co.,* 166 F. 117 (C.C.A. 7th Cir. 1908).

unpatented supplies.[15] There were even attempts to extend restrictive covenants to items that were not patented.[16]

This Court did not rule squarely on patent owners' power to impose such restrictions until 1912, when it handed down *Henry v. A.B. Dick Co.*[17] There, a majority adopted the property-based rationale, and upheld the enforcement of a restriction insisting that a patented article could be used by a re-purchaser only with unpatented supplies obtained from the patent owner.

The vitality of *Henry v. A.B. Dick Co.* was short lived. The very next term this Court effectively repudiated that decision in *Bauer & Cie.*[18] *Bauer & Cie* involved a dispute in which the patent owner

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[15] *See, e.g., Tubular Rivet & Stud Co. v. O'Brien,* 93 F. 200 (C.C.D. Mass. 1898); *Cortelyou v. Lowe,* 111 F. 1005 (C.C.A. 2d Cir. 1901); *Brodrick Copygraph Co. of New Jersey v. Roper,* 124 F. 1019 (C.C.D. R.I. 1903); *Aeolian Co. v. Harry H. Juelg Co.,* 155 F. 119 (C.C.A. 2d Cir. 1907); *Rupp & Wittgenfeld Co. v. Elliott,* 131 F. 730 (C.C.A. 6th Cir. 1904); *A.B. Dick Co. v. Milwaukee Office Specialty Co.,* 168 F. 930 (C.C.E.D. Wis. 1908); *Crown Cork & Seal Co. of Baltimore City v. Brooklyn Bottle Stopper Co.,* 172 F. 225 (C.C.E.D. N.Y. 1909), *aff'd as modified,* 200 F. 592 (C.C.A. 2d Cir. 1912); *Commercial Acetylene Co. v. Autolux Co.,* 181 F. 387 (C.C.E.D. Wis. 1910).

[16] *Dr. Miles Med. Co. v. John D. Park & Sons Co.,* 220 U.S. 373 (1911).

[17] *Henry v. A.B. Dick,* 224 U.S. 1.

[18] *Bauer & Cie,* 229 U.S. 1.

attempted to enforce a restriction that remote repurchasers not resell the patented items for less than a stated price. The patent owner relied on the same property theory that had been accepted in *Henry v. A.B. Dick Co.* Rather than agree, however, a different majority of this Court held the restriction ineffective. It refused to extend the property rationale from "use" of the patented invention, as had been the issue in *A.B. Dick,* to the right to "vend."[19] Instead, it adopted the treatment of the right to vend that had been set out in *Bobbs-Merrill*[20] in connection with the Copyright Statute.

Bauer & Cie presaged two other decisions of this Court, *Straus v. Victor Talking Machine Co.,*[21] and *Motion Picture Patents Co. v. Universal Film Co.,*[22] that followed in 1917.[23] *Motion Picture Patents Co.* in

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[19]The term "vend" was replaced by "sell" when the patent statutes were codified in 1952. *See* Patent Act of 1952, ch. 29, 66 Stat. 813 (1952).

[20]*Bobbs-Merrill Co. v. Straus,* 210 U. S. 339 (1908).

[21]*Straus v. Victor Talking Mach. Co.,* 243 U.S. (1917).

[22]*Motion Picture Patents Co. v. Universal Film Mfg. Co.,* 243 U.S. 502 (1917).

[23]*Straus v. Victor Talking Machine,* 243 U.S. 490; *Motion Picture Patents Co.,* 243 U.S. 502.

Congress weighed in at essentially the same time. In 1914 it enacted the section 3 of the Clayton Act, which prohibited tying arrangements of patented goods under some conditions. Clayton Antitrust Act of 1914, Pub.L. 63-212, sec. 3, 38 Stat. 731 (Oct. 15,

(continued...)

particular extended the rational in *Bauer & Cie* from vending to uses. In doing so it expressly rejected the property rationale at length, and overruled *A.B. Dick.*[24]

As a result of these developments, the Federal Circuit's property-based rationale is plainly incorrect. *Motion Picture Patents Co.* in particular expressly notes that the entire line of cases it extinguished, beginning with *Heaton-Peninsular Button Fastener,* had been based on a property analysis. It then rejects that analysis as "defect[ive]."[25] Post-sale restrictions, if any, can be imposed by the patent owner only by contract, and therefore only on persons with whom the patent owner has contracted.

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[23](...continued)
1914), codified at 15 U.S.C. § 14.

[24]Because of the timing of these events, the treatment of patent exhaustion by Professor Robinson, in his treatise William C. Robinson, The Law of Patents for Useful Inventions (1890), is not very useful. Although his work is influential on other topics, it is too early to reflect the later changes in the law on patent exhaustion. *Compare, e.g., Lexmark Int'l,* 816 F.3d at 732-33 (relying on Robinson).

[25]*Motion Picture Patents Co.,* 243 U.S. at 514 ("The defect in this thinking springs from the substituting of inference and argument for the language of the statute, and from failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding, and rights which he may create for himself by private contract, which, however, are subject to the rules of general, as distinguished from those of the patent, law.").

This same history also proves that the Federal Circuit's analysis of section 271 is incomplete. Through *Bauer & Cie, Motion Picture Patents Co.*, and the decisions that have followed them, this Court has established that purchasers have "authority" to utilize the patent owner's goods under the general principle that permits unrestricted use of acquired chattel. Under the statute, the patent owner's rights to prohibit the invention from being "ma[de]", "us[ed]", or "s[old]" are only specific exceptions to that authority. Once the patent owner declines to exercise these permissions, he has no other patent rights to enforce.

B. Affirming the Federal Circuit Would Undermine a Great Deal of Settled Law

Later decisions of this Court have built extensively on the analysis of *Bauer & Cie, Straus v. Victor Talking Machine,* and *Motion Picture Patents Co.* For example, those later decisions detail when contracts by the patent owner, attempting to impose post-transfer restrictions, are unenforceable.[26] In addition, those decisions also permit third parties to raise the patent owner's post-transfer misconduct vicariously, thus

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[26] *See, e.g., Boston Store Co. v. Am. Graphophone Co.*, 246 U.S. 8 (1918); *U.S. v. General Electric Co.*, 272 U.S. 476 (1926); *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938); *Ethyl Gasoline Corp'. v. U.S.*, 309 U.S. 436 (1940); *U.S. v. Masonite Corp.*, 316 U.S. 265 (1942); *U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942).

creating the defense of patent misuse.[27] Thus, the entire body of law relating to patent misuse can be said to depend on rejecting the Federal Circuit's property-based rationale.

This is particularly significant because Congress has expressly approved the general principle of patent misuse. Section 282 of the statute, which lists the defenses available to be pled in an action for patent infringement, expressly mentions unenforceability.[28] Congress added this term during deliberations on the Patent Act of 1952 specifically to ensure that the defense of patent misuse would continue to be available.[29]

The decision of this Court on which the Federal Circuit places much reliance, *General Talking Pictures Corp. v. Western Electric Co.*,[30] is not to contrary. That decision, as well as *United States v. General Electric Co.*,[31] stand for the unremarkable proposition that a party, with whom the patent owner cooperates to

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[27] *See, e.g., Carbice Corp. of Am. v. Patents Dev. Corp.*, 283 U.S. 27 (1931).

[28] 35 U.S.C. § 282.

[29] *See, e.g.*, Rich, Giles S., Address to the New York Patent Law Association, November 6, 1952, reprinted in 75 J. Pat. Tm. Off. Soc'y. 3, 22 (1993).

[30] *General Talking Pictures Corp.*, 304 U.S. 175, opinion on rehearing at 305 U.S. 124.

[31] *United States v. General Electric*, 272 U.S. 476.

supply patented goods to the marketplace, is to be treated together with the patent owner as a single entity for determining whether exhaustion has occurred. Thus, in *General Talking Pictures,* the patent owner and another who had acted as the patent owner's foundry, were allowed together to impose post-transfer restrictions by contract one who purchased from the foundry. Similarly, in *U.S. v. General Electric,* a patent owner who had out-sourced to another the marketing of the patent owner's own products was allowed to impose post-transfer restrictions on one who had dealt with the marketer directly. Pointedly, neither decision provides justification for abandoning the rationale in *Bauer & Cie* and *Motion Picture Patents Co.,* and returning to a theory that permits post-transfer restrictions under a property rationale.

CONCLUSION

For the forgoing reasons, the Institute respectfully submits that the portion of the Federal Circuit's decision addressing domestic exhaustion be reversed.

Respectfully submitted,

R. CARL MOY
Professor of Law
Mitchell Hamline School of Law
Intellectual Property Institute
875 Summit Avenue
St. Paul, Minnesota 55105
Ph. (651) 290-6344
Fax (651) 290-6406
Counsel of Record

Mitchell Hamline School of Law
Intellectual Property Institute
Counsel for amicus curiae

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Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF LAW PROFESSORS ADAM MOSSOFF AND GREGORY DOLIN AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

Miranda Y. Jones
Counsel of Record
HEIM, PAYNE, & CHORUSH, LLP
Heritage Plaza
1111 Bagby, Suite 2100
Houston, Texas 77002
(713) 221-2000
mjones@hpcllp.com

Counsel for Amici Curiae

Becker Gallagher · Cincinnati, OH · Washington, D.C. · 800.890.5001

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STATEMENT OF INTEREST OF *AMICI CURIAE*

Amici curiae are law professors[1] who teach and write about patent law and policy. *Amici* have an interest in ensuring that the legal rules governing the commercialization of property rights in technological innovation remain in accord with the longstanding doctrines created by this Court and Congress since the early nineteenth century. This ensures that patent law reflects the policy of promoting and securing new innovation. As indicated by the citations throughout this brief, some *amici* have authored articles in this field. *Amici* are:

Adam Mossoff
Professor of Law
Antonin Scalia Law School
George Mason University

Gregory Dolin
Associate Professor of Law
University of Baltimore School of Law

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[1] Pursuant to Rule 37.6 of the Rules of the Supreme Court, *amici* state that no counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae* or their counsel made a monetary contribution to its preparation or submission. The Center for the Protection of Intellectual Property, an academic center at the Antonin Scalia Law School at George Mason University, paid for a portion of the printing and filing fees. *Amici* certify that Respondent has given blanket consent to the filing of *amicus* briefs in support of either party, and Petitioner has consented to the filing of this brief.

INTRODUCTION

This case concerns the scope of rights of patent owners to transfer their property to third parties, and to create value in the marketplace through complex commercial supply chains. On its face, it appears that this legal issue is merely one of contract rights and whether patent owners can—or should—impose restrictions on downstream commercial implementers or users of their inventions, despite these downstream third-parties not being parties to the initial contracts. This framing of the legal issue is deeply mistaken, because it unmoors the patent doctrine, called "exhaustion" today, from the doctrine in property law first created by this Court and Congress in the early American Republic.

The parties and other *amici* fully address recent case law and the economic and policy arguments, and thus *amici* here offer an important historical and doctrinal insight: This case addresses, not just the scope of contract rights, but the scope of *conveyance rights* that have been long secured to patent owners as owners of *property rights*. Given the confusion in modern case law, both about patent law generally and patent exhaustion doctrine specifically, we must first explain the basic and indisputable legal premise that patents are property rights, which then defines the legal issue in this case as one of conveyance rights, which is precisely how this Court and lower federal courts treated exhaustion doctrine throughout the nineteenth century.

SUMMARY OF ARGUMENT

Since the first Patent Act of 1790, United States law has consistently treated patent rights as property rights. Nineteenth-century courts thus adopted concepts and doctrines in patent law from common law real property conveyances, including the terms "license" and "assignment." These nineteenth-century courts developed the same default rule for patent conveyances as they had developed for real property: a patent owner has the right to transfer a limited interest in the property, but the patent owner must do so through express restrictions in the original, written conveyance instrument that provides notice to grantees and their successors and assigns.

Contrary to the claims of some professors and policy advocates today, the 1952 Patent Act did not "discard over a century of law relating to patent property and replace it with the rules of personal property." *Patent Law Codification and Revision: Hearing on H.R. 3760 Before the Subcomm. No. 3 of the H. Comm. on the Judiciary*, 82d Cong. 212 at 79 (1951). As Chief Justice John Roberts recognized in *eBay*, well-established "historical practice" continues to guide the interpretation and application of general statutory terms in the Patent Act. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394–95 (2006) (Roberts, C.J., concurring).

In *Quanta,* this Court confirmed the status of patent exhaustion as a default rule, and did not abrogate nineteenth-century precedent that confirmed this property-based default rule. *See Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 626 (2008) ("[T]he right to vend is exhausted by a single,

unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.") (quoting *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917)) (emphasis added). *Amici* urge the Court to reaffirm its commitment to longstanding precedent by affirming the Federal Circuit's decision.

ARGUMENT

I. PATENT RIGHTS ARE PROPERTY RIGHTS

A. Nineteenth-Century Statutes and Case Law Indisputably Established That Patents are Property Rights

Nineteenth-century courts unequivocally defined patents as property rights. *See* Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent "Privilege" in Historical Context*, 92 CORNELL L. REV. 953, 992-98 (2007) (collecting cases). This is unsurprising, as the first Patent Act of 1790, enacted by the First Congress, as well as follow-on patent statutes secured the classic set of property rights of acquisition, use, and disposal. *See Vanhorne's Lessee v. Dorrance*, 2 U.S. (2 Dall.) 304, 310 (1795) ("[T]he right of acquiring and possessing property, and having it protected, is one of the natural, inherent, and unalienable rights of man."); *Eaton v. B. C. & M. R. R.*, 51 N.H. 504, 511 (1872) ("Property is the right of any person to possess, use, enjoy, and dispose of a thing." (quoting *Wynehamer v. People*, 13 N.Y. 378, 433 (1856))). The early patent statutes framed these

essential property rights for patent owners as the right to make, use, and *vend* the rights in the invention.[2]

Although patents today are defined in terms of only the "right to exclude," *see, e.g.*, 35 U.S.C. § 154, the 1952 Patent Act did not abrogate this fundamental legal definition and protection of patents as property rights. *See* 35 U.S.C. § 261. Despite the reference in the 1952 Patent Act that patents are "personal property," *id.*, this was not meant to change this Court's time-honored protection of patents as property rights in terms of both real and personal property rights. *See Patent Law Codification and Revision: Hearing on H.R. 3760 Before the Subcomm. No. 3 of the H. Comm. on the Judiciary*, 82d Cong. 212 at 79 (1951) ("Although patents have always been recognized as property, they have not been recognized as personal property but as having attributes of several kinds of property. . . . It is not considered desirable to discard over a century of law relating to patent property and replace it with the

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[2] *See* Patent Act of 1870, ch. 230, § 22, 16 Stat. 198, 201 (repealed 1952) (providing that "every patent shall contain . . . a grant to the patentee, his heirs or assigns . . . the exclusive right to make, use, and vend the said invention or discovery"); Patent Act of 1836, ch. 357, § 11, 5 Stat. 117, 121 (repealed 1870) (providing that "every patent shall be assignable in law" and that this "conveyance of the exclusive right under any patent, to make and use, and to grant to others to make and use, the thing patented" must "be recorded in the Patent Office"); Patent Act of 1793, ch. 11, § 1, 1 Stat. 318, 321 (repealed 1836) (providing that a patent secures "the full and exclusive right and liberty of making, constructing, using, and vending to others to be used, the said invention or discovery"); Patent Act of 1790, ch. 7, § 1, 1 Stat. 109, 110 (repealed 1793) (providing that a patent secures "the sole and exclusive right and liberty of making, constructing, using and vending to others to be used, the said invention or discovery").

rules of personal property.") (testimony of George N. Robillard, Assistant Chief for the Patents and Patent Counsel for the Navy Department, Department of Defense).

This is significant given this Court's consistent references and treatment of patents as property rights since the early Republic. *See, e.g., Ex parte Wood*, 22 U.S. (9 Wheat.) 603, 608 (1824) (stating that a patent secures to an "inventor . . . a property in his inventions; a property which is often of very great value, and of which the law intended to give him the absolute enjoyment and possession"). Throughout the nineteenth century, courts consistently referenced or directly relied on real property precedent in affirming patent rights or in adjudicating disputes of these rights. *See, e.g., Blandy v. Griffith*, 3 F. Cas. 675, 679 (C.C.S.D. Ohio 1869) (Swayne, Circuit Justice) ("The rights secured by a patent for an invention or discovery are as much property as anything else, real or incorporeal."); *Dobson v. Campbell*, 7 F. Cas. 783, 785 (C.C.D. Me. 1833) (Story, Circuit Justice) (resolving a dispute over assignment rights by the patent owner by citing "strong[ ] analogous cases in equity" in which courts recognized the legitimacy of "deeds" conveying land even if a "feoffment is stated without any averment of livery of seisin"); Mossoff, *Who Cares What Thomas Jefferson Thought About Patents?*, *supra*, at 992-98 (discussing cases).

In this Court's unanimous decision in *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 18 (1829), Justice Joseph Story explained that a patent is a "title" and thus an act of invention before an application for a patent is "like an inchoate right to land, or an inceptive right to

land, well known in some of the states, and every where accompanied with the condition, that to be made available, it must be prosecuted with due diligence, to the consummation or completion of the title." Similarly, in *Gayler v. Wilder*, 51 U.S. (10 How.) 477, 493 (1850), this Court recognized "the discoverer of a new and useful improvement is vested by law with an inchoate right to its exclusive use, which he may perfect and make absolute by proceeding in the manner which the law requires. [The inventor] possessed this inchoate right at the time of the assignment [to Enos Wilder]."

The legal definition of patents as property rights is further reflected in the constitutional protection accorded to patents by this Court and lower federal courts under the Due Process Clause and Takings Clause of the Constitution. *See United States v. Burns*, 79 U.S. 246, 252 (1870) (stating that "the government cannot, after the patent is issued, make use of the improvement any more than a private individual, without license of the inventor or making compensation to him"); *Cammeyer v. Newton*, 94 U.S. 225, 234 (1876) (holding that a patent-owner can seek compensation for the unauthorized use of his patented invention by federal officials because "[p]rivate property, the Constitution provides, shall not be taken for public use without just compensation"); *McKeever's Case*, 14 Ct. Cl. 396, 420-22 (1878) (rejecting the argument that a patent is a "grant" of special privilege, because the text and structure of the Constitution, as well as court decisions, clearly establish that patents are private property rights). *See generally* Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents under the Takings Clause*, 87 B.U. L. REV. 689 (2007).

B. Assignment And License Doctrines Were Incorporated by Nineteenth-Century Courts Into Patent Law From Real Property Common Law Cases

In accord with the doctrinal and constitutional definition of patents as property rights, nineteenth-century courts incorporated into patent law concepts and doctrines from common law property conveyances. For this case at bar, this is most evident in the early courts' incorporation into patent law of the concepts and doctrines governing the *conveyances* of real property interests. For instance, in *Potter v. Holland*, 19 F. Cas. 1154 (C.C. D. Conn. 1858), District Judge Ingersoll surveys in extensive detail how the real property doctrines of "assignment" and "license" had been applied in patent law in defining the nature of the legal interest that a patent owner conveys to a third party. *See id.* at 1156-57 (stating that "[a]n assignment, as understood by the common law, is a parting with the whole property," and that a license is a "less or different interest than . . . the interest in the whole patent"). *See also Moore v. Marsh*, 74 U.S. (7 Wall.) 515, 520 (1868) ("An assignee is one who holds, by a valid assignment in writing, the whole interest of a patent, or any undivided part of such whole interest, throughout the United States."); *Suydam v. Day*, 23 F. Cas. 473, 474 (C.C.S.D.N.Y. 1846) (distinguishing between "an assignee of a patent [who] must be regarded as acquiring his *title* to it, with a right of action in his own name," and "an interest in only a part of each patent, to wit, a license to use").

Nineteenth-century courts went so far as to incorporate other real property concepts, such as future

interest terms, into the interpretation and enforcement of patent conveyances. *See Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 290 (6th Cir. 1896) (recognizing under the terms of the license that "[t]he buyer of the machine undoubtedly obtains the title to the materials embodying the invention, subject to a *reverter* in case of violation of the conditions of the sale") (emphasis added); *Goodyear v. Union India Rubber Co.*, 10 F. Cas. 726, 727 (C.C.S.D.N.Y. 1857) (stating that the patent owner who creates a restricted assignment or license retains a revertor interest); *cf. Clum v. Brewer*, 5 F. Cas. 1097, 1102-03 (C.C.D. Mass. 1855) (Curtis, Circuit Justice) (referring to an assignee as a "tenant in common" given his "undivided fourth part" in the "title" to Samuel Morse's patent in the electro-magnetic telegraph).

C. Nineteenth-Century Courts Developed The Same "Conditional" Legal Rule Governing Conveyance of Patent Rights As Conveyances of Real Property Rights

On the basis of this linkage between real property and patents as property rights, nineteenth-century courts developed the same default rule for patent conveyances as they had developed for real property: a patent owner has the right to transfer a limited interest in the property, but the patent owner must do so through express restrictions in the original, written conveyance instrument. *See, e.g., Am. Cotton-Tie Supply Co. v. Bullard*, 1 F. Cas. 625, 629 (C.C.S.D.N.Y. 1879) (recognizing that patented products may be sold where "a restriction may easily be attached, or where a license to use only may be sold, unaccompanied with any title or accompanied with a restricted title");

Washing Mach. Co. v. Earle, 29 F. Cas. 332, 334 (C.C.E.D. Pa. 1861) ("Every person who pays the patentee for a license to use his process becomes the owner of the product, and may sell it to whom he pleases, or apply it to any purpose, *unless he bind himself by covenants to restrict his right of making and vending certain articles* that may interfere with the special business of some other licensees.") (emphasis added).

This was true despite Chief Justice Roger Taney's language in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852), that a patent is only a "right to exclude" and thus all sales of patent rights exhaust this singular right of exclusion. Unfortunately, in saying this, Chief Justice Taney "rewrote the 1836 Patent Act," which expressly defined patents in terms of the classic property rights of use and disposition. Adam Mossoff, *Exclusion and Exclusive Use in Patent Law*, 22 HARV. J.L. & TECH. 321, 341 (2009). The esteemed patent law historian, Edward Walterscheid, has also recognized this unfortunate misreading of the patent statutes by Chief Justice Taney. *See* Edward C. Walterscheid, *Divergent Evolution of the Patent Power and the Copyright Power*, 9 MARQ. INTELL. PROP. L. REV. 307, 330 (2005) (referring to Chief Justice Taney's opinion in *McQuewan* as an "extraordinary holding which appeared on its face so contradictory to the statutory language").

The Supreme Court and lower federal courts thus treated the sweeping claims about exhaustion by Chief Justice Taney as dictum, and they continued to recognize that patent owners had the right, as all property owners, to impose in a written instrument a

variety of restrictions on the possession and use of their property conveyed to a third-party, and with notice of these restrictions, ran with the property to successors and assigns. This was the same right as landowners to create through express restrictions lesser estates or restrictive covenants in conveyance instruments. *See* Joseph William Singer, *Introduction to Property* 231–34 (2001) (discussing notice requirement in restrictive covenant doctrine for real property law).

For instance, a patent-owner could restrict a third-party in terms of the total quantity of patented products manufactured or sold. *See e.g. Bloomer v. McQuewan*, 55 U.S. 539, 554 (1852) (Mclean, J., dissenting) (describing a license among the parties, which they were not disputing in the case, to make and use a patented planning machine "within Pittsburgh and Alleghany county . . . [and] not to construct or run more than fifty machines during the term"); *Goodyear v. Providence Rubber Co.*, 10 F. Cas. 712, 722 (C.C.D. R.I. 1864) (Clifford, Circuit Justice) (noting that Goodyear's license "authorizes the licensee therein named, to use the inventor's metallic gum-elastic composition for coating cloths, for the purpose of japanning, marbling, and variegate japanning"); *Goodyear v. Beverly Rubber Co.*, 10 F. Cas. 638, 641 (C.C.D. Mass. 1859) (Clifford, Circuit Justice) (discussing limited grant of a license to only manufacture and sell shoes using Goodyear's patented rubber vulcanization process).

Nineteenth-century patent owners restricted the manner in which the patented product may be used by a third party. *See e.g.*, *Cotton-Tie Co. v. Simmons*, 106 U.S. 89 (1882) (enforcing a restriction on a licensee

prohibiting re-use of a patented cotton-bale tie, on which the patented products were stamped "License to use once only"); *Providence Rubber Co. v. Goodyear*, 76 U.S. 788, 799–800 (1869) (enforcing against the defendants the express sale and use restrictions imposed in a license); *Chaffee v. Bos. Belting Co.*, 63 U.S. 217, 220 (1859) (recognizing by "the terms of the instrument" created by Goodyear in this case that "it was understood that the right and license so conveyed was to apply to any and all articles substituted for leather, metal, and other substances, in the use or manufacture of machines or machinery . . . .").

Nineteenth-century patent owners restricted the territorial scope in which the patented product may be used or sold. *See, e.g.*, *McQuewan*, 55 U.S. at 554 (describing a valid assignment of the patent "within several States, including Pennsylvania, except the city of Philadelphia"); *Farrington v. Gregory*, 8 F. Cas. 1088, 1089 (C.C.E.D. Mich. 1870) (noting that a license contained a valid geographic restriction that limited the licensee's "right to use and sell machines in Calhoun and Kalamazoo counties, in the state of Michigan . . . .").

By the end of the nineteenth century, it was well-settled doctrine that patentees could convey restricted interests in their property as long as the patent owner expressly specified these restrictions in the conveyance instrument and third parties had notice of these restrictions. *See Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 291 (6th Cir. 1896) (holding that a licensee and its wholesaler are both liable to a license restriction because the "jobber buys and sells subject to the restriction, and both have

notice of the conditional character of the sale, and of the restriction on the use" of the patented invention). Thus, grantees took "title" to the underlying patented invention "subject to a reverter in case of violation of the conditions of the sale." *Id.* at 290.

Later in the twentieth century, this conveyance default rule came to be known as exhaustion doctrine. The "exhaustion" term emphasizes more the default aspect of the rule that a patent owner's failure to impose express restrictions with notice to third parties was required to retain a future interest, rather than the right of patentees to convey lesser interests through licenses. *See Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917) ("[T]he right to vend is *exhausted* by a single, *unconditional* sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.") (emphases added). Despite this new label, though, the nature of the "conditional sale" default rule remained the same: a patent owner exhausted its property rights if it conveyed the property without "explicit and unequivocal restrictions as to the time, or place, or manner of using the [patented] article" that created some type of reversionary interest. *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920).

The modern "exhaustion" label is different than that used by nineteenth-century courts in describing patent conveyances, but the doctrine remains the same. In fact, one early twentieth-century court observed that exhaustion doctrine simply reflected "truisms"

concerning the right of conveyance. *See Am. Graphophone Co. v. Boston Store of Chicago*, 225 F. 785, 787 (N.D. Ill. 1915) (stating as "truisms" that "after a patentee has *exhausted* his right, he can no longer exercise it, or that, when he has once sold to an individual for a full price, the public cannot be barred from the full and *unrestricted* use and right of resale") (emphases added).

II. THE 1952 PATENT ACT CODIFIED EXISTING NINETEENTH-CENTURY CONVEYANCE DOCTRINES OF PATENTS AS PROPERTY RIGHTS

These nineteenth-century cases, though, must be viewed through the lens of subsequently enacted statutes, such as the 1952 Patent Act. This Court has recognized that, barring an express abrogation of a preexisting judge-made doctrine, the 1952 Patent Act did not to repeal nineteenth-century precedent. In *Warner-Jenkinson*, for example, this Court held that the doctrine of equivalents, a judge-made infringement doctrine in the nineteenth century, survived the enactment of the 1952 Patent Act. *See Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 26-27 (1997). This follows well-established canons of statutory construction. *See Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952) ("Statutes which invade the common law . . . are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident."). Thus, for example, the enactment of 35 U.S.C. § 103 expressly repealed this Court's flash of genius test. *See Graham v. John Deere Co.*, 383 U.S. 1, 15 (1966) (stating that it is "apparent

that Congress intended by the last sentence of § 103 to abolish the test it believed this Court announced in the controversial phrase 'flash of creative genius'").

In understanding patent conveyance doctrine today, it is highly relevant that the 1952 Patent Act explicitly refers to a patent-owner's rights to convey its property interests to third-parties. Although §154 generally frames the patent as "the right to exclude," it does so by reference to the right of "offering for sale, or selling the invention." 35 U.S.C. § 154. For all property rights, exclusion is understood by reference to the core rights of what the owner or third-parties do with the asset, and § 154 confirms this in its structure. In sum, the right to exclude by logical necessity implies the right of the property owner to engage in this activity—the property owner has the exclusive right to sell or otherwise convey its property rights in the marketplace. *See E. Bement & Sons v. National Harrow Co.*, 186 U.S. 70, 88-89 (1902) ("An owner of a patent has the right to sell it or to keep it; to manufacture the article himself or to license others to manufacture it; to sell such article himself or to authorize others to sell it."); *Biotech. Indus. Org. v. District of Columbia*, 505 F.3d 1343, 1346 (Fed. Cir. 2007) (Garjasa, J., concurring) (stating that "the primary mechanism by which the right to exclude promotes such innovation is by providing the patentee with the opportunity to obtain greater profits than it could have obtained without such a right to exclude"); *King Instruments Corp. v. Perego*, 65 F.3d 941, 950-51 (Fed. Cir. 1995) ("The [Patent] Act supplies a carrot in the form of economic rewards resulting from the right to exclude. . . . The Act does not dictate that a patentee

must manufacture its own invention to recover the costs of innovation.").

Similarly, the 1952 Patent Act was the first patent statute that expressly codified the status of patents as property rights, but it did so by reference to patents as having "the attributes of personal property." 35 U.S.C. § 261. As explained above, this was not meant to abrogate preexisting doctrine that defined patents in terms of real *and* personal property rights. *See supra* Part I. As further evidence, § 261 codifies the longstanding legal requirement that a patent, as a property right, "shall be assignable in law by an instrument in writing," and that a patent-owner may "grant and convey an exclusive right" in the patent. *Id.* These statutory requirements and permissions in § 261 incorporate the longstanding legal definition of patents as real property interests, not personal property.[3]

Section 261 thus confirms the close doctrinal connection made by nineteenth-century courts that, since a patent is a property right, it is fully alienable with or without restrictions. If a patent is alienated without restrictions, like all property, it is deemed to have been transferred in its entirety and the previous owner has no claim whatsoever to the property it once owned. If a patent is alienated with express restrictions, and third parties have notice of these

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[3] "In its first patent statutes, Congress created writing and recordation requirements for patent conveyances, adopting a legal norm from real property that ensured proper notice of conveyances and of any use restrictions imposed by a grantor in a conveyance instrument." Mossoff, *Exclusion and Exclusive Use in Patent Law*, *supra*, at 354 (citing Patent Acts of 1793 and 1836, and the Statute of Frauds).

restrictions, then a lesser estate interest has been conveyed to the grantee and to any successors in interest who may also acquire that lesser estate interest.

Even if this Court concludes there is an ambiguity or conflict in the 1952 Patent Act and the preexisting default rule conveyance doctrines created in the nineteenth century, it recently stated in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), that legal practices reflecting a "long tradition" should prevail in patent law today. *Id.* at 391 (quoting *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320 (1982)). Moreover, Chief Justice John Roberts rightly recognized in *eBay* that a well-established "historical practice" constrains the interpretation and application of general statutory terms in the Patent Act. *Id.* at 394–95 (Roberts, C.J., concurring). Just last year in *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2410 (2015), this Court again confirmed "that in just those contexts—'cases involving property and contract rights'—considerations favoring *stare decisis* are 'at their acme.'"

III. MODERN PATENT EXHAUSTION DOCTRINE RIGHTLY FOLLOWED THE PROPERTY-BASED "CONDITIONAL SALE" RULE FROM THE NINETEENTH CENTURY

This Court's *Quanta* decision did not overrule *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), nor did it disturb longstanding precedent concerning the nature of patent rights. *Quanta Computer v. LG Elecs.*, 553 U.S. 617, 625 (2008) (stating that it is applying "[t]he longstanding doctrine

of patent exhaustion" that was "first applied . . . in 19th-century cases").

In *Mallinckrodt*, the Federal Circuit explicitly reaffirmed the nineteenth-century conception of patent exhaustion as a default rule applying to "conditional sales" and not as an inexorable rule. The Federal Circuit recognized the existence of historical restraints on patent alienation, such as the doctrine of patent misuse, but affirmed that contracting parties may impose conditions or limitations on the patent rights conferred.

The essence of the *Mallinckrodt* holding is summarized by an early twentieth-century case, which itself summarizes the state of preceding patent law jurisprudence:

> [T]he rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the [patented] article, will be upheld by the courts.

Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 703 (Fed. Cir. 1992) (quoting *E. Bement & Sons v. National Harrow Co.*, 186 U.S. 70, 91 (1902)). As with real property, "the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States." *See E. Bement*, 186 U.S. at 91.

Consistent with well-established historical case law by this Court and many lower courts, *Mallinckrodt* acknowledged that sales without any express restraint exhaust all patent rights in the article sold, *i.e.*

exhaustion is a default rule. *Mallinckrodt*, 976 F.2d at 706–07 (citing *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 21 L. Ed. 700 (1874); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 39 L. Ed. 848, 15 S. Ct. 738 (1895)). *Mallinckrodt* also acknowledged that certain restraints may be *per se* illegal patent misuse or prohibited under the antitrust laws, such as "price-fixing and tying restrictions accompanying the sale of patented goods." *Id.* at 704 (citing *Bauer & Cie. v. O'Donnell*, 229 U.S. 1 (1913); *Straus v. Victor Talking Machine Co.*, 243 U.S. 490 (1917); *Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8 (1918)). Absent these circumstances, *Mallinckrodt* held that the law does not impose a mandatory rule of exhaustion. *Mallinckrodt*, 976 F.2d at 705 ("The practice of granting licenses for restricted use is an old one. . . . So far as it appears, its legality has never been questioned.").

The *Quanta* Court's decision does not call the basic principles of *Mallinckrodt* into question, but rather affirms the default rule of exhaustion in the absence of express restrictions on the scope of a conveyance of patent rights, whether in an assignment or license. As the Federal Circuit observed in its decision below, "*Quanta* did not involve a patentee's sale at all, let alone one subject to a restriction or, more particularly, a single-use/no-resale restriction. . . . the Court repeatedly stated that the relevant LGE-Intel contract gave Intel an unrestricted authorization to sell the articles." *Lexmark Int'l, Inc. v. Impression Prods.*, 816 F.3d 721, 737 (Fed. Cir. 2016). The *Quanta* Court therefore had no need to answer the question that is now before the Court—whether parties to a conveyance of a property right can agree that the grantee receives a restricted interest (license), a restricted assignment,

or an outright assignment with no express restrictions whatsoever in a transfer of the entire property right.

CONCLUSION

For the foregoing reasons, the Federal Circuit's holding should be affirmed.

Respectfully submitted,

Miranda Y. Jones
Counsel of Record
HEIM, PAYNE, & CHORUSH, LLP
Heritage Plaza
1111 Bagby, Suite 2100
Houston, Texas 77002
(713) 221-2000
mjones@hpcllp.com

Counsel for Amici Curiae

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Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICUS CURIAE* NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF RESPONDENT ON THE FIRST QUESTION PRESENTED

WALTER E. HANLEY, JR.
President
NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION
ANDREWS KURTH KENYON LLP
One Broadway
New York, New York 10004
(212) 425-7200

NOAH M. LEIBOWITZ
Counsel of Record
JONATHAN C. SANDERS
SIMPSON THACHER & BARTLETT LLP
425 Lexington Avenue
New York, New York 10017
(212) 455-2000
nleibowitz@stblaw.com

Attorneys for Amicus Curiae
(For Additional Counsel See Inside Cover)

270319

CHARLES R. MACEDO
DAVID P. GOLDBERG
CO-CHAIR, COMMITTEE ON
AMICUS BRIEFS, NYIPLA
AMSTER, ROTHSTEIN
& EBENSTEIN LLP
90 Park Avenue
New York, New York 10016
(212) 336-8000

ROBERT J. RANDO
THE RANDO LAW FIRM P.C.
6800 Jericho Turnpike,
Suite 120W
Syosset, New York 11791
(516) 799-9800

MICHAEL KEENAN
HINMAN, HOWARD & KATTELL, LLP
80 Exchange Street
Binghamton, New York 13902
(607) 231-6927

Attorneys for Amicus Curiae

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STATEMENT OF INTEREST[1]

The New York Intellectual Property Law Association ("NYIPLA"or "the Association") is a professional association of more than 1,100 attorneys whose interests and practices lie in the area of patent, copyright, and other intellectual property law. It is one of the largest regional intellectual property bar associations in the United States. The Association's members include a diverse array of attorneys specializing in patent law, and a substantial percentage of the Association's member attorneys participate actively in patent litigation, representing both patent owners and accused infringers. Association members also frequently engage in patent licensing matters on behalf of their clients, representing both licensors and licensees.[2]

The Association thus brings a well-educated and distinct perspective to the issues in this appeal. In particular, the Association's members have a strong interest in this case because their day-to-day activities depend on the consistently-applied and longstanding principles of patent exhaustion. Because of the vital and increasing importance of patents and patent licensing in a

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1. Pursuant to Sup. Ct. R. 37.6, the Association and its counsel represent that they have authored the entirety of this brief and that no person other than *amicus curiae* or its counsel has made a monetary contribution to the preparation or submission of this *amicus* brief.

2. Pursuant to Sup. Ct. R. 37.3(a), Petitioner's written consent to this filing has been submitted herewith. Respondent consented to the filing of *amicus curiae* briefs in support of either party or neither party in a docket entry dated December 20, 2016.

complex global economy, the Association and its members have an especially strong interest in ensuring that their reasonable expectations regarding patent exhaustion principles continue to be consistently applied to the sale of patented items and to the licensing of patent rights.[3]

SUMMARY OF ARGUMENT

1. The first question presented on this appeal is whether a conditional sale, specifying post-sale restrictions on a patented item's reuse or resale, avoids application of the patent exhaustion doctrine if the condition is not followed. On this question, the Association believes that the answer should be "yes"[4]

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3. The arguments set forth in this brief were approved on February 13, 2017, by an absolute majority of the officers and members of the Board of Directors of the Association, including any officers or directors who did not vote for any reason, including recusal, but do not necessarily reflect the views of a majority of the members of the Association, or of the law or corporate firms with which those members are associated. After reasonable investigation, the Association believes that no officer or director or member of the Amicus Briefs Committee who voted in favor of filing this brief, nor any attorney associated with any such officer, director, or committee member in any law or corporate firm, represents a party in this litigation. Some officers, directors, committee members, or associated attorneys may represent entities, including other *amici curiae*, which have an interest in other matters that may be affected by the outcome of this litigation.

4. The Association does not take a position on the second question presented, whether extraterritorial sales may *never* result in exhaustion of U.S. patent rights. However, as set forth in its *amicus* brief submitted to the Federal Circuit, a uniform rule that a patentee may avoid exhaustion by placing reasonable post-sale conditions, whether the sale occurs here or abroad, could resolve both issues presented on this appeal.

Nearly a decade ago, this Court in *Quanta*[5] addressed an unconditional sale by a licensee, pursuant to a license agreement that did not grant any license to third-party customers who then combined the patented technology with unpatented components. The patentee was also required under a separate agreement to give customers notice of that limitation. Notwithstanding this contractual provision, the Court applied longstanding exhaustion law to find that "[n]othing in the License Agreement restrict[ed the licensee's] right to sell its microprocessors and chipsets to purchasers who intend to combine them with non-[licensed] parts,"and therefore that the initial authorized, *unconditional* sale by the licensee exhausted the patentee's downstream enforcement rights.[6]

Despite numerous invitations to do so, the Court declined to overturn or even address in *Quanta* the Federal Circuit's decision more than a decade before that in *Mallinckrodt*.[7] There, the Federal Circuit had similarly followed this Court's lengthy history of assessing the conditional or unconditional nature of each sale in determining exhaustion, holding that, where a valid restriction *is* communicated at the time of sale, and where it does not violate independent legal obligations (such as the antitrust laws), that restriction will avoid downstream exhaustion if it is violated. The court thus stated broadly that, "[i]f the sale . . . was validly conditioned under the

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5. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (hereinafter "*Quanta*").

6. *Id.* at 636-637.

7. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) (hereinafter "*Mallinckrodt*").

applicable law such as the law governing sales and licenses, and if the restriction on reuse was within the scope of the patent grant or otherwise justified, then violation of the restriction may be remedied by [an] action for patent infringement."[8]

It is the Association's view that, as it did in *Quanta*, the Court should again decline to overturn *Mallinckrodt* here. Both *Quanta* and *Mallinckrodt* follow a framework that is sensible, that is grounded in this Court's century-old exhaustion precedents, and that has long provided stable, consistent exhaustion principles for the lower courts to follow. Indeed, as we address at the outset below, these decisions are consistent with the language and history of the Patent Act, which evinces Congress's intent to grant patentees flexibility in determining how to separately convey, license, and/or enforce their patent rights against different levels of the distribution chain.

A. First, both this Court's decision in *Quanta* and the Federal Circuit's earlier decision in *Mallinckrodt* are faithful to the structure and history of the Patent Act. The statute's use of the disjunctive "or"in describing the acts that, absent authority, can give rise to patent infringement clearly conveys that a patentee is permitted to authorize some—but not all—of the specified acts, such as making, selling, using, and the like. Overturning *Mallinckrodt* to find that a patentee may not impose *any* restrictions on resale or reuse is inconsistent with the terms of the statute.

The history of the Patent Act also confirms that a patentee is permitted to separately convey or enforce

8. *Id.* at 709.

its rights. The 1952 Act expressly permitted recovery for both direct and contributory infringement, and the 1988 amendments further made clear that a patentee may condition the sale or license of patent rights on the acquisition or license of other products or rights, absent certain circumstances relating to market power. Taken together, these provisions are consistent with, and give life to, this Court's early exhaustion decisions giving a patentee flexibility over how to convey or enforce the separate rights to make, use, and sell a patented invention.

B. Second, *Mallinckrodt* is consistent with this Court's recent decision in *Quanta*, as well as a number of earlier Supreme Court decisions. Far from silently overturning *Mallinckrodt*, *Quanta* does not even address post-sale restrictions that render subsequent sales not "authorized"under the Patent Act. Indeed, this Court rejected numerous express requests to overturn *Mallinckrodt*, finding instead simply that the admittedly *un*conditional sale in *Quanta* resulted in exhaustion under settled law. Moreover, *Quanta* repeatedly cited and relied upon the unconditional nature of the sale in reaching that result, suggesting that the presence of a post-sale condition would have been relevant to the exhaustion analysis.

Quanta follows a number of Supreme Court cases that expressly based the exhaustion inquiry on whether an unconditional sale occurred. Dating back more than a century, decisions such as *Mitchell v. Hawley*,[9] *Adams v. Burke*,[10] and *Bement v. National Harrow Co.*[11] consistently

9. 83 U.S. 544 (1872).

10. 84 U.S. (17 Wall.) 453 (1873).

11. 186 U.S. 70 (1902).

examined whether any otherwise valid condition had been placed on the initial sale. The Court perhaps most clearly articulated this principle in the *General Talking Pictures*[12] cases, holding there that a licensee sale subject to valid, communicated restrictions precludes the application of exhaustion when the restrictions are violated.

C. Finally, the contrary rule advocated by the dissent below and by Petitioner here would result in an untenable distinction between the sale and licensing of a patented item. Under this framework, a patentee would indisputably be permitted to license the right to make and sell a patented item subject to conditions on resale or reuse (for example, under *General Talking Pictures I and II*, as noted above), and to enforce those conditions against a subsequent user or reseller. But the same patentee would not *itself* be permitted to sell the same patented item, subject to the same conditions, because *any* sale would always exhaust all of its rights. This distinction finds no basis in the relevant statutory or case law history, and it would leave the curious result that patentees would have more secure rights in licensing others to make or sell a patented product than in making or selling it themselves.

Unsettling decades of established law would also potentially create turmoil and chaos in existing market practices. While Petitioner and the dissent below cite a series of speculative harms that could ensue from retaining *Mallinckrodt*, there is little evidence that these

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12. *General Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175 (hereinafter "*General Talking Pictures I*"), *modified on reh'g*, 305 U.S. 124 (1938) (hereinafter "*General Talking Pictures II*").

predicted horribles have occurred or will occur. But just as importantly, the contrary interest in maintaining a stable, sensible framework for determining patent exhaustion counsels strongly against undermining case law that dates back well over a century. In addition to providing a consistent, coherent framework for lower courts to apply, this settled precedent has advanced other important public policy goals such as permitting lower prices for consumers who do not need the right to resell or reuse a device, as well as allowing manufacturers to appropriately regulate modifications or reuses of patented items that could harm their reputation or business.

ARGUMENT

I. *MALLINCKRODT* SHOULD NOT BE OVERTURNED.

Respondent Lexmark International, Inc. (hereinafter "Lexmark"or "Respondent") makes and sells printers and toner cartridges for use in those printers. Respondent sells cartridges under two models, one at full price for unrestricted use by the customer, and the other under a single-use/no-resale restriction, for a discount. Petitioner Impression Products, Inc. (hereinafter "Impression"or "Petitioner") acquired single-use cartridges that had been purchased from Lexmark and resold them in violation of the single-use condition, after making certain technical modifications that permitted multiple uses.

The district court below found that, *inter alia*, Lexmark could not enforce its patent rights against Impression, because Lexmark's initial authorized sale of each patented cartridge exhausted all of its rights in

that cartridge, even if the otherwise valid single-use/no resale restriction were not ultimately followed. The Federal Circuit reversed, declining to overturn its twenty-five-year-old decision in *Mallinckrodt* that an otherwise lawful, valid condition, clearly communicated to the buyer at the time of sale, may be enforced and does not result in exhaustion with respect to any unauthorized resales or reuses.

The question presented here requires this Court to decide whether *any* sale by a patentee extinguishes all of the patentee's rights in the article, or whether a patentee avoids exhaustion with respect to unauthorized resales or reuses by imposing otherwise lawful post-sale restrictions at the time of sale. As set forth below, the propriety of permitting a patentee to impose lawful post-sale restrictions is supported by the text and structure of the Patent Act; by *Quanta* and other longstanding precedent from this Court; and by commonsense market considerations and principles.

A. *Mallinckrodt* Is Firmly Rooted in the Language of the Patent Act.

1. The Severability of Patent Rights Inherently Permits Patentees to Impose Reasonable Restrictions on Resale or Reuse of a Patented Item.

The majority below discussed at length the structure of the rights that 35 U.S.C. § 271(a) grants to patentees. In so doing, the court correctly recognized that Section 271(a) establishes liability for "whoever without authority makes, uses, offers to sell, or sells any patented

invention."(Emphasis added). The statute's use of the disjunctive "**or**"indicates that a patentee may grant "authority"to exercise only ***some*** of the rights conferred by a patent, but not others. *See, e.g.*, Appendix ("App."), 20a.[13]

Thus, as both the statute and pre-Patent Act case law make clear, "exhaustion doctrine in the Patent Act must be understood as an interpretation of § 271(a)'s 'without authority' language."*Id.*, 24a; *see also id.* (noting that "nothing in § 271(a) constrains the patentee's choices about to whom to grant the required authority, if anyone, or about which acts (of manufacture, use, sale, etc.) to authorize, if any"); *id.*, 38a (noting that the bundle of sticks granted by the Patent Act "can generally be transferred separately"and citing pre-Patent Act case law in support of that principle).

Indeed, the severability of patent rights has long been recognized by this Court. *See, e.g., Mitchell*, 83 U.S. at 548 (discussing "[s]ales . . . made by the patentee *with or without conditions*"and declining to apply exhaustion where purchaser used device past temporal limitation provided in license agreement) (emphasis added). In other words, by enabling a patentee to transfer some, but not all, of its rights, the structure of the Patent Act inherently permits a patentee to impose restrictions (*i.e.*, to retain some of its rights under the patent) when it makes a sale. Any argument that a sale by the patentee is a *per se* transfer of all rights to the purchaser thus conflicts with the language of Section 271(a).

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13. *Lexmark Int'l, Inc. v. Impression Prods.*, 816 F.3d 721, 732 (Fed. Cir. 2016). For convenience, all further references to the Federal Circuit's decision below will be to the Appendix submitted by Petitioner in this appeal.

Notwithstanding this, the dissent below argues that the "whoever without authority makes, uses, offers to sell, or sells"language is not inconsistent with applying exhaustion to every patentee sale. That is because, according to the dissent, "[t]he focus of patent exhaustion is not whether the *buyer* has been expressly or impliedly authorized to sell or use a product in a certain way after the sale,"but rather "whether the *seller* had authorization to make a sale."App., 119a-120a (emphasis in original).

The Association respectfully submits that this interpretation is in tension not only with the many decisions of this Court permitting conditional sales (as discussed *infra*), but also with the statutory language itself. Nothing in the statute confines the authority granted by the patentee to an initial sale; to the contrary, as explained above, the Patent Act separately requires authorization to make any "sale"**or** "use"of a patented device, among other things. *See generally* 35 U.S.C. § 271(a). If any such act violates an express condition placed on the initial sale by the patentee, then, by definition, the reseller or ultimate end user has committed the act "without authority,"giving rise to liability under the Patent Act. *See, e.g.*, App., 22a ("Nothing in the Act supersedes the § 271 requirement of authority from the patentee before a person in Impression's position may engage in the itemized acts without infringing"). In other words, the statutory text is inconsistent with the dissent's view that only the initial sale need be "authorized"for exhaustion to apply to all subsequent conduct by a customer or reseller.

2. Congress Authorized Patentees to Separately Convey or Enforce Their Rights at Different Levels of the Distribution Chain.

The legislative history of the Patent Act further makes clear that a patentee may separately convey or enforce its rights with respect to different types of infringing acts. In 1952, Congress authorized claims for contributory infringement in Section 271(c), providing that "[w]hoever offers to sell or sells within the United States or imports into the United States a component . . . constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such [a] patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer." Sections 271(d)(1)-(3) then expressly allowed infringement claims based on direct or contributory infringement. *See* 35 U.S.C. § 271(d)(1)-(3).

In 1988, Congress added two additional subparts to Section 271(d), providing that a patent owner would not be barred by a patent misuse defense from securing relief for infringement because, *inter alia*, it conditioned a license or sale on the acquisition of a separate license or the purchase of a separate product, absent certain market power. 35 U.S.C. § 271(d)(4)-(5). As this Court noted in *Dawson Chem Co. v. Rohm & Haas Co.*, 448 U.S. 176, 203-212 (1980), the legislative history leading up to the 1952 language shows that Congress was directly overruling the *Mercoid* cases,[14] to the extent that those cases recognized

14. *Mercoid Corp v. Mid-Continent Investment Co.*, 320 U.S. 661, 668-669 (1944) and *Mercoid Corp v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944).

certain patent misuse or antitrust defenses to contributory infringement.

By authorizing a patentee to bring a claim for either direct or contributory infringement, as well as to make otherwise proper conditional sales, Congress expressed an intent to give patentees control and flexibility over whether and how to sell patented devices and enforce their patent rights, as suggested in a number of early Supreme Court decisions such as *Mitchell*, *Adams*, and *Bement* (discussed *infra*). Overturning *Mallinckrodt* would thwart this apparent legislative intent by making it impossible for a patentee to place meaningful restrictions on resale or reuse and preserve downstream rights.

B. *Mallinckrodt* Is Supported by This Court's Precedent.

1. *Mallinckrodt* Is Consistent with *Quanta*.

In addition to staying faithful to the words of the Patent Act, *Mallinckrodt* is also consistent with *Quanta* and the earlier exhaustion decisions of this Court.

The Federal Circuit's decision below thoroughly reviewed the facts underlying the dispute in *Quanta* and this Court's analysis. Based on its review, the majority properly found that *Quanta* "did not involve a patentee's sale at all, let alone one subject to a restriction or, more particularly, a single-use/no-resale restriction."App., 30a. Rather, "*Quanta* involved a sale made (to computer maker Quanta) not by the patentee (LGE) but by a manufacturing licensee (chip maker Intel), which the patentee had authorized to make and sell the articles at issue (chips

for installation in computers that would then be covered by LGE's patents)."*Id.*

Indeed, *Quanta* did not include any post-sale restrictions in the first instance, as this Court noted prominently on several occasions:

> *Nothing in the License Agreement restricts Intel's right to sell* its microprocessors and chipsets to purchasers who intend to combine them with non-Intel parts. It broadly permits Intel to "make, use, [or] sell"products free of LGE's patent claims . . . . To be sure, LGE did require Intel to give notice to its customers, including Quanta, that LGE had not licensed those customers to practice its patents. But neither party contends that Intel breached the agreement in this respect . . . .
>
> *No conditions limited Intel's authority to sell products substantially embodying the patents.* Because Intel was authorized to sell its products to Quanta, the doctrine of patent exhaustion prevents LGE from further asserting its patent rights with respect to the patents substantially embodied by those products."

Quanta, 553 U.S. at 636-637 (emphasis added) (internal citations omitted).

And the very first basis on which the Court rejected the patentee's argument—that its downstream rights were not exhausted—in the relevant portion of its opinion was a detailed reading of the contracts themselves:

> LGE overlooks important aspects of the structure of the Intel-LGE transaction . . . . [T]he provision requiring notice to Quanta appeared only in the Master Agreement, and LGE does not suggest that a breach of that agreement would constitute a breach of the License Agreement. Hence, *Intel's authority to sell its products embodying the LGE Patents was not conditioned* on the notice or on Quanta's decision to abide by LGE's directions in that notice

Id. (emphasis added). By focusing repeatedly on the specific contractual language and the absence of any restrictions on Intel's right to sell the patented products, this Court hardly suggested that, had there *been* such conditions, it nonetheless would have found them unenforceable. The opinion does not invite that inference.

It is not surprising, then, that the Court's decision in *Quanta* did not criticize or even explicitly address *Mallinckrodt*. This silence is significant for two reasons:

1. The petitioner in *Quanta* and the government both made prominent arguments in favor of overturning *Mallinckrodt*, as the government has for many years. *See, e.g.*, App., 32a.

2. As the Federal Circuit correctly recognized below, the decision under review in *Quanta* had "relied centrally on *Mallinckrodt* and its successor case, *B. Braun Medical*."*Id.*

This Court's decision not to address *Mallinckrodt*, despite these two apparent reasons to do so, is certainly telling.

Nevertheless, the dissent below asserts that the use of the term "unconditional"in *Quanta* and other exhaustion cases is not a reference to the absence of conditions on resale or reuse, but rather an archaic reference "to a sale in which title passes."App., 114a-115a; *see also* Petition for Certiorari (hereinafter "Pet."), 2016 WL 1130030, at *15-*16 (arguing same); Brief for Petitioner (hereafter "Pet. Br.") at 33 (same). This is not tenable. The Court in *Quanta* never suggested that its repeated references to "conditions"or "restrictions"related only to the transfer of title. Rather, as set forth above, the Court stated on several occasions that Intel's authority to sell was not "conditioned"on, for example, providing the notice to customers required in its license agreement with LGE, or on anything else. *Quanta*, 553 U.S. at 636-37.[15]

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15. The dissent suggests that the *Quanta* Court expressed indirect support for this view, because the *Quanta* decision notes that *Motion Picture Patents* "reiterated the rule that 'the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it,'"suggesting that an "unconditional" sale could still carry "restrictions." App., 116a (quoting *Quanta*, 553 U.S. at 626). But not even *Motion Picture Patents* (which prohibited tie-ins, not all conditions on resale or reuse) used "conditional" only in this narrow sense. *See, e.g.*, *Motion Picture Patents*, 243 U.S. at 509 (noting right "to prescribe by notice attached to a patented machine *the conditions of its use*") (emphasis added); *id.* at 515 (describing sales "*subject to any restrictions or conditions as to use or royalty*") (emphasis added).

Petitioner also contends that, independent of *Quanta*, the Court's earlier decision in *Univis*[16] "confirm[s] conclusively that a patentee may not enforce a putative post-sale restriction by means of the patent laws," because the Court there held broadly that "the 'sale of [an article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article'"— not merely as to specific conditions that run afoul of the antitrust laws. Pet. at *14-*15 (quoting *Univis*, 316 U.S. at 250); *see also* Pet. Br. at 16-20 (same).

But that is not what *Univis* held. Rather, the Court in that case specifically prohibited conditions related to "price fixing," *Univis*, 316 U.S. at 252, declining to find that other, conceivably lawful restrictions defeated exhaustion in that case for the specific reason that they were still inextricably tied to the core price-fixing scheme.[17] The majority below thus properly found that any arguably broader statements in *Univis* are not to the contrary on this issue. *See* App., 54a-55a; *see also Quanta*, 553 U.S. at 627, 631-35 (discussing *Univis* in connection with separate issue of whether product substantially embodied the

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16. *U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942) (hereinafter "*Univis*").

17. *See generally id.* at 254 ("Appellees stress the features of their licensing system by which it is said they protect the public interest . . . But if we assume that such restrictions might otherwise be valid . . . these features are so interwoven with and identified with the price restrictions which are the core of the licensing system that the case is an appropriate one for the suppression of the entire licensing scheme *even though some of its features, independently established, might have been used for lawful purposes.*") (emphasis added).

patent, not whether an otherwise valid, lawful conditional sale results in exhaustion).

In short, nothing in *Quanta*, *Univis*, or their predecessor cases even contradicts the reasoning in *Mallinckrodt*.

2. Longstanding Precedent Supports Upholding *Mallinckrodt*.

Mallinckrodt is also firmly grounded in this Court's pre-*Quanta* decisions on both patent misuse and patent exhaustion.

Mitchell v. Hawley, one of the Court's earliest exhaustion cases, gave effect to a condition agreed upon by a patentee and its licensee—in that case, a temporal restriction. This Court determined that the limitation should be enforced, despite the fact that the term of the patent had subsequently been extended by Congress for an additional seven years, beyond the limit agreed to by the patentee and licensee. Notwithstanding full awareness of *Bloomer v. McQuewan*[18] and *Bloomer v. Millinger*,[19] the Court determined that the rule of those cases should be applied where "the sale [wa]s absolute, and *without any conditions*,"*Mitchell*, 83 U.S. at 548 (emphasis added), a holding recognized in *Mallinckrodt*. *See* 976 F.2d at 707 (noting *Mitchell*'s acknowledgment that the initial sale "may be made by the patentee with or without conditions").

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18. 56 U.S. (14 How.) 539 (1853) (hereinafter "*McQuewan*").

19. 68 U.S. (1 Wall.) 340 (1863) (hereinafter "*Millinger*").

Not only has *Mitchell* never been overturned by this Court, but it provided an important foundation for the *General Talking Pictures* decisions upholding field-of-use restrictions. *See, e.g., General Talking Pictures I*, 304 U.S. at 181 ("The Transformer Company could not convey to petitioner what both knew it was not authorized to sell.") (citing *Mitchell*, 16 Wall. at 550); *see also General Talking Pictures II*, 305 U.S. at 127 ("The question of law requiring decision is whether the restriction in the license is to be given effect. That a restrictive license is legal seems clear.") (citing *Mitchell*, 16 Wall. 544). *Mallinckrodt*'s rule that a sale made under an otherwise lawful restriction does not give rise to patent exhaustion is thus simply a natural corollary of the principle that "no one can convey . . . any better title than he owns."*Mitchell*, 83 U.S. at 550.

This Court's decision in *Adams* provides further support for *Mallinckrodt*. There, the Court held that "[t]he right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee."84 U.S. at 456. By definition, permitting a patentee to separately grant sale and use rights permits conditional sales that only authorize some, but not all, of the acts described in the Patent Act, as discussed above. Thus, in *Adams*, the Court found that the ultimate end user who purchased from a licensee was able to use the patented device (a coffin) outside of the territorial restriction imposed by the patentee on the licensee, but only because the use right was passed without condition or restriction. *See id.* at 455-456 (emphasis added); *see also id.* at 456 (holding that, "when [the patented items] are once lawfully made and sold, there is no restriction on their *use* to be *implied*

for the benefit of the patentee or his assignees or licensees) (second emphasis added).[20]

The *General Talking Pictures* cases later provided what is perhaps the strongest mandate for maintaining the rule that was announced in *Mallinckrodt*. In *General Talking Pictures II*, the patentee granted its licensee the right to make and sell certain amplifiers for private or home use, but not for commercial applications such as movie theaters. 305 U.S. at 125-126. Notwithstanding knowledge of this restriction, the licensee sold, and a movie theater bought, amplifiers for the prohibited use. *See id.* at 126. The Court found that, "[a]s the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted . . . . And as [the ultimate end customer] knew the facts, it is in no better position than if it had manufactured the amplifiers itself without a license. It is liable because it has used the invention without license to do so."*Id.* at 127.

Finally, an analogy may be drawn with this Court's recent decision in *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1765-1766 (2013). There, the Court held that the Patent Act enabled patentee Monsanto to prohibit farmers who had purchased its patented seeds from replanting them following an initial harvest. In that case, there was no dispute that Monsanto had sold the seeds to farmers

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20. *Mallinckrodt* finds still further support in this Court's broad holding in *Bement* that "the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the [patented] article, will be upheld by the courts."186 U.S. at 91.

(either directly or through a third-party), and that the farmers were authorized to use the seeds to plant a crop. *See, e.g., id.* at 1764-1765. Nevertheless, this Court held that Sections 154(a) and 271(a) of the Patent Act permitted Monsanto to restrict farmers from replanting seeds, because replanting would, in effect, enable the farmers to "make"the patented device by growing another crop, which in turn could be replanted indefinitely to produce more seeds. *Id.* at 1766-1767. While not controlling here, this decision again recognized that a patentee can make an "authorized sale"of its patented article for one purpose (such as use for planting), while at the same time restricting the buyer from exercising *other* rights set forth in the Patent Act (such as making the patented seeds through replanting). *See id.*

* * *

The arguments in favor of overruling *Mallinckrodt* attempt to distinguish these cases (among many others) by relying on three principle concepts: (i) a distinction between sales and licenses; (ii) common law principles limiting restraints on alienation; and (iii) certain broad statements by early exhaustion cases that could be read to apply exhaustion to any "authorized"sale (whether conditioned or not). *See, e.g.*, Pet. at 16-17; Pet. Br. at 25-35, 38-41. The Association respectfully submits that none of these arguments survives close examination.

a. There Is No Principled Distinction Between Sales and Licenses in This Context.

First, the argument that a patentee may include restrictions when it licenses its patent—because it still owns the patented invention—but not when it sells items made under the patent elevates form over substance. As the majority explains in its opinion below, "[u]nless granting 'authority' is to be a legal fiction, a patentee does not grant authority by denying it. And that is so for patentee sales and licensee sales alike, *i.e.*, whether the patentee denies the authority to its direct purchaser or to one purchasing through a manufacturing licensee." App., 41a.

That is because, as the Federal Circuit details at length, none of this Court's decisions has drawn a principled distinction between sales and licenses in determining patent exhaustion, and there is no dispute that a patentee may place otherwise valid conditions on sales by its licensee. *See, e.g.*, *id.*, 42a (citing *Mitchell*"s finding that only sales made "without any conditions"trigger exhaustion); *id.*, 43a (discussing holding in *General Talking Pictures* cases that patentee could enforce field of use restrictions through license agreement).[21] A contrary

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21. *Accord, e.g.*, App., 49a-50a ("As Impression noted at oral argument, it is undisputed that no Supreme Court decision has involved a single-use/no-resale restriction on a patentee's sale and found the restriction insufficient to preserve the patentee's infringement rights . . . . More generally, no Supreme Court precedent denies a patentee the ability to preserve its § 271 rights, by a clear communication of an otherwise-permissible restriction, when it sells the patented article itself, just as the patentee may do, under the *General Talking Pictures* principle, when contracting out the making and selling of the patent article.").

ruling would result in the commercially bizarre outcome that, while a patentee who invests in the making and selling of a patented item cannot place any conditions on its resale or reuse, a non-practicing patentee could contract out manufacture and sale rights to accomplish precisely the same end. *See, e.g.*, *id.* at 45a ("Non-practicing entities would have greater power to maintain their patent rights than practicing entities.").

Petitioner, the dissent below, and various *amici* all respond to this argument by relying on technical distinctions between licensing a patent (under which the patentee retains ownership) and a direct sale by the patentee (in which the patentee transfers title to the patented item). Thus, these arguments assert that, in either case, it is the initial authorized "sale"by someone that triggers exhaustion—either the first sale by the patentee, or the first sale by the licensee. *See, e.g.*, Pet. Br. at 39 ("In fact, as it relates to patent exhaustion, there is no distinction between authorized sales made by patentees and those made by licensees: exhaustion applies to both."); App., 121a-123a (distinguishing *General Talking Pictures* on the ground that, while patentee imposed restriction in license, initial "sale"by licensee was not authorized by patentee because it violated field of use restriction).

This curious distinction finds little basis in the language of the Patent Act, which confers the right to exclude others from practicing the invention during the life of the patent, not the right to use the invention, as the Federal Circuit properly noted below. *See, e.g.*, App., 35a (noting that "the right to use d[oes] not come from the patent statute, which grants only rights to exclude, not rights to practice"); *accord, e.g.*, *Studiengesellschaft*

Kohle mbH v. Northern Petrochem. Co., 784 F.2d 351, 357 (Fed. Cir. 1986) ("The patent grant is not for the right to use the patented subject matter, but only for the right to exclude others from practice of the patented subject matter.") (citing 35 U.S.C. Section 154); *King Instruments Corp. v. Perego*, 65 F.3d 941, 949-50 (Fed. Cir. 1995) ("A patentee need not make, use, or sell an invention to gain patent protection. Upon proper disclosure of a protectable invention, a patentee acquires the right to exclude others from making, using, or selling the invention.").

Because the rights afforded by Congress are to prevent others from practicing rather than to practice the patent oneself, the ability to prevent unauthorized downstream use should not turn on the consideration of whether a patentee has licensed its rights or chosen to sell the patented device directly. Either way, the patentee maintains the right to *exclude* others from any unauthorized manufacture, sale, use, and the like, whether by conditions imposed by the patentee directly or through its licensee.

This case precisely illustrates the point. Lexmark wishes to sell certain printer cartridges at a discount, subject to a "single-use/no-resale"restriction. Under the rule proposed by Petitioner and the dissent, it could never do so directly, forfeiting the ability to engage in differential pricing and other practices with potential market benefits for consumers. But had Lexmark simply licensed out the manufacture and sale of these cartridges to a third-party, it could have accomplished what Petitioner and the dissent believe it could not do on its own: forbidding sales that did not satisfy the very same restrictions. Absent any firm basis in this Court's precedent or the Patent Act, there is simply no logical or doctrinal basis to adopt this rule.

b. Common Law Principles Against Restraints on Alienation Do Not Compel a Different Result.

A related argument in favor of exhaustion is made here and below based on common law teachings against restraints on the alienation of goods. For example, numerous briefs cite "Lord Coke's 17th century observation"that, if a man sells "his whole interest"in a horse, any condition imposed on the sale is void, because the seller has already transferred his entire interest therein. *See, e.g.*, Pet. Br. at 45-46.

But as the majority correctly explains below, these distant common law teachings "described what British courts, *in the absence of an overriding legislative prescription*, would treat as an impermissible anti-alienation restriction on a seller's disposition of 'his whole interest' in a chattel."App., 57a (emphasis added); *see also id.* at 57a ("Lord Coke's quote does not purport to address the effect of a legislative prescription of broad rights to control sale and use."). Indeed, while Petitioner argues that the "common law doctrine"of patent exhaustion should bar a patentee from imposing conditions on sales, Pet. Br. at 13-14, Petitioner's argument fails to rebut the majority's finding that "Lord Coke's formulation . . . [never] suggested that a judicial rule would override specific legislative grants." App., 56a.

A specific legislative grant is precisely what authorizes a patentee to impose otherwise lawful conditions when it sells a patented article. The majority below explains that "Sections 154(a) and 271(a) legislatively establish a patentee's rights over sale and use . . . [and] grant those

rights separately."[22] App., 57a. And there is no doubt that, as this Court's longstanding precedent has held, Congress is free to (and frequently does) enact legislation to modify the common law. *See, e.g., Jesinoski v. Countrywide Home Loans, Inc.*, 135 S. Ct. 790, 793 (2015) ("this is simply a case in which statutory law modifies common-law practice"); *Astoria Fed. Sav. & Loan Assn. v. Solimino*, 501 U.S. 104, 108 (1991) ("Congress is understood to legislate against a background of common-law adjudicatory principles"and to incorporate them, "except when a statutory purpose to the contrary is evident") (internal quotations and citations omitted); *see also, e.g., Tenet v. Doe*, 544 U.S. 1, 11 (2005) (Stevens, J., concurring) (inviting Congress to "modify the federal common-law").

Here, the majority correctly found that Congress "has long deemed it important to incentivize creation and disclosure through grants to [patentees] of rights to exclude others for a time,"and that Congress "expressly d[id] so regarding patent rights . . . [by] specifically giving separate rights to exclude others from making, using, selling, etc."App., 58a. Thus, "[t]hat overriding legislative prescription removes the patented-article sale

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22. The majority below also correctly notes that the observation of Lord Coke invoked in support of overruling *Mallinckrodt* did not reference England's Statute of Monopolies, "to which American patent law has often been traced."App., 57a-58a and n.13 and authorities cited. Moreover, the Federal Circuit cites numerous contrary authorities recognizing that other policy goals may dictate a departure from Lord Coke's view when appropriate, including general statements regarding the American legal system that restrictions on sale are generally *enforced* where they are not "regarded as an unlawful restraint of trade or in violation of public policy."*See* App., 57a-58a (citing a litany of authorities).

from the scope of Lord Coke's 1628 description of his country's general judicially fashioned property law."*See id.*, 58a-59a. As discussed above, this is evident in the Patent Act's grant of the right to separately exclude others from making, selling, or using the patented invention "without authority,"which has no parallel in any common law principles regarding control over downstream use once a product was sold. *See* 35 U.S.C. Section 271(a); *see also* 35 U.S.C Section 154(a) ("Every patent shall contain . . . a grant to the patentee . . . of the right to exclude others from making, using, offering for sale, or selling the invention . . . .").

Finally, this legislative prescription enabling patentees to sell "different sticks in the bundle of rights,"App., 57a, undermines Petitioner's position that the decision below enables patentees to make an "end-run around exhaustion,"because it renders exhaustion "optional."Pet. Br. at 14. To the contrary, the majority's decision below, as well as this Court's own prior cases, adhere to the language of the statute requiring separate "authority"for each otherwise infringing act. *See generally* App., 20a-25a; *see also Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 253-254 (1992) ("We have stated time and again that courts must presume that a legislature says in a statute what it means and means in a statute what it says there . . . When the words of a statute are unambiguous . . . 'judicial inquiry is complete.'") (quoting *Rubin v. United States*, 449 U.S. 424, 430, 66 L. Ed. 2d 633, 101 S. Ct. 698 (1981)). Any dissatisfaction with the language of the Patent Act must be directed to Congress, not to the courts. *See, e.g., Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2409 (2015) (noting that "judicially created doctrine[s]"derived from statutory interpretation

are "balls tossed into Congress's court, for acceptance or not as that branch elects").

Nor does this Court's recent decision in *Kirtsaeng v. John Wiley & Sons, Inc.*[23] compel a different conclusion. In *Kirtsaeng*, this Court considered whether Section 109(a) of the Copyright Act—a codification of the common law "first sale"doctrine—applies to sales made outside the United States. *See Kirtsaeng*, 133 S. Ct. at 1354-1356. In that context, this Court relied on Lord Coke's teachings because, in enacting Section 109(a) of the Copyright Act, Congress was codifying a legal principle that had been "previously governed by the common law."*Id.* at 1363-1364. By contrast, as set forth above and as the Federal Circuit explains below in this case, in enacting Sections 154(a) and 271(a), Congress made a choice to grant patentees statutory rights that *depart* from the common law's distaste for restraints on alienation of property. App., 57a-59a (quoting century-old analysis from England's Privy Council that distinguished between "the general doctrine of absolute freedom of disposal of chattels of an ordinary kind"and "the respect paid and the effect given to those conditions of transfer of the patented article which the law, *laid down by statute*, gave the original patentee a power to impose") (emphasis in original) (internal quotations and citations omitted) (also quoted in *Henry v. A.B. Dick*, 224 U.S. 1, 42-43 (1912)).[24]

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23. 133 S. Ct. 1351, 185 L. Ed. 2d 392 (2013).

24. Although this Court in *Motion Picture Patents* overruled *A.B. Dick* to the extent that *A.B. Dick* permitted tie-in arrangements, the majority below correctly notes that this Court has never ruled that "*all* restrictions on a patentee's sale were ineffective to preserve the patentee's patent-law rights."App., 53a-54a (emphasis in original).

In sum, because the rights that Sections 154(a) and 271(a) provide to patentees were not "previously governed by the common law,"but instead were "laid down by statute,"*see id.*, there is no basis to "presume that Congress intended to retain the substance of the common law"with respect to those rights. *Cf. Kirtsaeng*, 133 S. Ct. at 1363-1364 (holding that Copyright Act's Section 109(a) reflects common law principles and should thus be enforced in accordance with those principles). In rejecting the argument that common law restraints on the alienation of property should be written into the provisions of the Patent Act, the majority did not, as the dissent below argues, "ignore traditional legal principles to fashion rules 'unique to patent disputes.'"App., 117a (quoting *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393, 126 S. Ct. 1837, 164 L. Ed. 2d 641 (2006)). Rather, the majority straightforwardly applied the statutory structure that Congress has established here to further innovation. App., 58a-59a; *see generally* U.S. Const. art. 1, § 8, cl. 8.

c. Arguably Broader Statements in the Court's Early Exhaustion Decisions Do Not Require the Application of Exhaustion to Conditional Sales.

The third principal line of argument advanced by Petitioner and the dissent below is that portions of this Court's early exhaustion decisions (including some of the same cases cited above) use language arguably supporting the broader application of exhaustion, regardless of any post-sale restrictions. *See, e.g.*, App., 107a-109a (discussion by dissent of broad statements in cases such as *Bloomer v. McQuewan*, *Hawley*, *Adams*, and *Keeler v. Standard*

Folding Bed Co.,[25] that an initial authorized sale passes the patented item outside the limits of the patent monopoly); Pet. Br. at 25-35 (summarizing same decisions).

The problem with this argument is that none of these decisions applied exhaustion where a reseller or user failed to follow an otherwise valid condition. For example, in *Bloomer v. McQuewan*, the patentee licensed the right to make certain planting machines during the term of the patent (originally fourteen years), which, through a series of assignments, ultimately passed to the defendants. The Court held in this context that Congress's subsequent extension of the patent term by statute did not interfere with the contractual rights agreed by the parties, noting that the right to use the products had passed "*without any limitation* as to the time for which they were to be used."*Bloomer*, 55 U.S. at 553 (emphasis added). Under these circumstances, it is not surprising that the Court applied exhaustion to the unrestricted use rights at issue.

Similarly, in *Mitchell v. Hawley*, as discussed above, the Court actually *enforced* a temporal limitation even after the patent term was extended. *See Mitchell*, 83 U.S. at 548, 550-551. Thus, while the dissent quotes a separate passage of the opinion providing that, "when [the patented article] rightfully passes from the patentee to the purchaser [it] ceases to be within the limits of the monopoly,"App., 107a (quoting *Mitchell*, 83 U.S. at 548), that hardly supports the dissent's position, given that the case itself declined to apply exhaustion to a conditional sale. The same is true of *Adams*. *See, e.g.*, *Adams*, 84 U.S. at 455-457 (while dissent cites passage providing that "the

25. 157 U.S. 659 (1895) (hereinafter "*Keeler*").

sale by a person who has the full right to make, sell, and use [] a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time,"title had passed in that case without restriction or condition on use, leading to Court's holding that "no restriction"should be "*implied*") (emphasis added).

Finally, in *Keeler*, a regional assignee of patent rights on certain standard folding beds sued a customer who had purchased the beds from a different regional assignee, subject to no restriction or condition on use, and then brought them into the plaintiff's territory. *Keeler*, 157 U.S. at 660. The Court followed *Adams* and *Mitchell* to again find that, absent any restriction on the initial sale, the patentee had no further right to restrict the customer's use—including where he transported the product—expressly noting that "[w]hether a patentee may protect himself and his assignees by special contracts brought home to the purchasers *is not a question before us."Id.* at 666 (emphasis added).

Thus, in cases cited by Petitioner, the dissent, and *amici*, there either *was no conditional sale* with respect to the use at issue (for example, in the *Bloomer* cases, *Adams*, and *Keeler*), or the Court *enforced* otherwise lawful restrictions and declined to apply exhaustion when the restrictions were not followed (for example, in *Mitchell*). This history does not support a decision that an initial authorized sale—conditional or not—always results in exhaustion.

To be clear, the Association agrees that, once an article of commerce has passed lawfully into commerce without any further restriction or condition, exhaustion

can be applied, as it was in *Adams*. Conversely, if the article passed into commerce only by violating a lawful restriction, then that article remains without authority, and exhaustion should not apply.

C. *Mallinckrodt* Provides a Predictable, Meaningful Marketplace Rule.

Finally, arguments in favor of overturning *Mallinckrodt* fail to account for the market reality that a patentee can monetize its patent through either direct manufacture and sale or contracting those activities out to a licensee. Recognizing this reality, the majority below correctly rejected a formalistic sale/license distinction that would be an "extraordinary doctrinal consequence"with little or no support in the Patent Act, the decisions of this Court, or any real-world economic consequence. *See, e.g.*, App., 34a.

As noted above, a contrary finding would result in the curious rule that a patentee can impose restrictions on downstream use if it acts through a licensee, but cannot impose the same restrictions if it sells a patented device directly. That is because there is no dispute that this Court "squarely held in the *General Talking Pictures* case that a patentee could preserve its infringement rights against unauthorized uses by restricting manufacturing licensees' authority to sell for such uses."App., 43a. Rather than endorsing a nationwide rule that creates an illogical (and easily avoidable) distinction between sales and licenses, the majority below instead correctly determined that "[t]here is no good reason that a patentee that makes and sells the articles itself should be denied the ability that is guaranteed to a non-practicing-entity patentee."*Id.*at 41a.

Petitioner, the dissent, and numerous *amici* articulate a contrary public policy position based on a parade of horribles that, to date, does not appear to have occurred in any meaningful way. For example, Petitioner argues that upholding *Mallinckrodt* could effectively foreclose secondary markets for patented goods such as used car sales, repairing personal electronic items, or setting the prices at which those products could be resold. Pet. Br. at 41-42.

First and foremost, as the majority properly found below, there has been no evidence of widespread market problems during the many decades in which conditional sales have been permitted (including during the twenty-five years that have elapsed since *Mallinckrodt* was decided). *See* App., 60a ("*Mallinckrodt* has been the governing case law since 1992 . . . . And yet we have been given no reliable demonstration of wide spread problems not being solved in the marketplace."). While public policy concerns can of course appropriately play a "limited"role in crafting new judicial rules, *see id.* at 97a, those concerns necessarily have less force when there is very little real-world evidence or logic to support them.

Just as importantly, some of the potential evils identified by Petitioner, such as fixing downstream prices, are already governed by the antitrust laws. For example, the majority below notes that specific practices such as vertical price-fixing or tying arrangements have already been addressed by numerous decisions of this Court, as well as by Congress itself in some cases. *See, e.g., id.*, 62a (noting decisions such as *Illinois Tool Works* and progeny directed to potentially anticompetitive practices, as well as adoption of § 271(d)(5) with respect

to tying arrangements). Moreover, the Federal Circuit's commonsense requirement that any post-sale restrictions be clearly communicated to the buyer at the time of sale, *id.*, App. 62a-63a, further safeguards both the initial purchaser and any downstream resellers or consumers from unwittingly entering into transactions that carry a risk of patent infringement liability, without having received fair notice.

Last, even if there are public policy concerns (at least theoretical ones) that could militate for the application of exhaustion to conditional sales, they bump up against the powerful countervailing interest in avoiding the disruption of markets that have been relying on this settled law for decades. *See, e.g.*, *Randall v. Sorrell*, 548 U.S. 230, 243-44 (2006) ("The Court has often recognized the 'fundamental importance' of *stare decisis*, the basic legal principle that commands judicial respect for a court's earlier decisions and the rules of law they embody . . . . *Stare Decisis* thereby avoid the instability and unfairness that accompany disruption of settled legal expectations."). Indeed, just two years ago, this Court held in *Kimble* that, in cases involving "property (patents) and contracts (licensing agreements) . . . considerations favoring *stare decisis* are '*at their acme*' . . . because parties are especially likely to rely on such precedents when ordering their affairs."*Kimble*, 135 S. Ct. at 2410 (emphasis added) (quoting *Payne v. Tennessee*, 501 U.S. 808, 828, 111 S. Ct. 2597, 115 L. Ed. 2d 720 (1991)).

In *Kimble*, this Court also noted that considerations in favor of upholding settled precedent are especially strong when courts interpret a federal statute (as opposed to the Constitution), because "critics of [a judicial] ruling

[interpreting a statute] can take their objections across the street, and Congress can correct any mistake it sees."*Kimble*, 135 S. Ct. at 2409; *see also id.* ("an argument that we got something wrong—even a good argument to that effect—cannot by itself justify scrapping settled precedent"); *accord, e.g.*, *Watson v. United States*, 552 U.S. 74, 82-83, 128 S. Ct. 579, 169 L. Ed. 2d 472 (2007) (noting that "long congressional acquiescence"—in that case, fourteen years, less than *Mallinckrodt*'s twenty-five years—"enhance[s] even the usual precedential force we accord to our interpretations of statutes"(internal quotations and citations omitted)). That Congress has taken no action in response to *Mallinckrodt*—or the many earlier decisions of this Court discussing conditional sales—is telling and counsels still further against destabilizing worldwide product and licensing markets stretching across industries.

It is also worth noting that these settled practices are not without benefit to the consumer. For example, the majority notes below that differential pricing can assist consumers by offering lower prices, in circumstances in which they only require a single use or are not engaged in resale. Conditional sales also allow patentees to control product modifications or resales that could harm their reputation or business, or potentially even result in harm to the end user—as in the case of certain medical device sales and the like. App., 60a-61a. Destabilizing substantial existing business practices and market expectations will create chaos and inconsistency, which is a potential "horrible"of its own that strongly militates against overturning *Mallinckrodt* and the other longstanding precedent discussed above.

CONCLUSION

For the reasons set forth above, the Court should reaffirm the rule announced in *Mallinckrodt* that otherwise lawful, valid conditions on the resale or reuse of a patented item, clearly communicated at the time of sale, do not give rise to patent exhaustion when the conditions are not followed.

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Respectfully submitted,

WALTER E. HANLEY, JR.
President
NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION
ANDREWS KURTH KENYON LLP
One Broadway
New York, New York 10004
(212) 425-7200

CHARLES R. MACEDO
DAVID P. GOLDBERG
CO-CHAIR, COMMITTEE ON AMICUS BRIEFS, NYIPLA
AMSTER, ROTHSTEIN & EBENSTEIN LLP
90 Park Avenue
New York, New York 10016
(212) 336-8000

NOAH M. LEIBOWITZ
Counsel of Record
JONATHAN C. SANDERS
SIMPSON THACHER & BARTLETT LLP
425 Lexington Avenue
New York, New York 10017
(212) 455-2000
nleibowitz@stblaw.com

ROBERT J. RANDO
THE RANDO LAW FIRM P.C.
6800 Jericho Turnpike, Suite 120W
Syosset, New York 11791
(516) 799-9800

MICHAEL KEENAN
HINMAN, HOWARD & KATTELL, LLP
80 Exchange Street
Binghamton, New York 13902
(607) 231-6927
Attorneys for Amicus Curiae

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IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF NOKIA TECHNOLOGIES OY AND NOKIA USA INC. AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

JOHN D. HAYNES
Counsel of Record
LINDSEY YEARGIN
ALSTON & BIRD LLP
1201 W. Peachtree St.
Atlanta, GA 30309
Tel. (404) 881-7000
john.haynes@alston.com

Counsel for Amici Curiae

February 23, 2017

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INTEREST OF THE *AMICI CURIAE*[1]

Amici curiae are Nokia Technologies Oy and Nokia USA Inc. (collectively, "Nokia"). Nokia is a global leader and innovator in the telecommunications equipment and services industry, with cumulative investments of over $70 billion in research and development relating to mobile devices and communications alone. As a result of this substantial commitment, Nokia currently owns more than 10,000 patent families, including a large number of standard-essential patents. Nokia continues to invest heavily in research and development and to license and expand its industry-leading patent portfolio. For example, Nokia continues to develop and license innovations that are powering the next revolution in computing and mobility: the "programmable world" where intelligent connections bring millions of everyday objects online. This work includes a team of experts in areas including digital healthcare, digital multimedia, imaging and sensing,

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[1] Pursuant to Supreme Court Rule 37.6, counsel for *amici curiae* state that no counsel for a party authored this brief in whole or in part, or made a monetary contribution intended to fund the preparation or submission of this brief, and no other person other than *amici curiae*, its members, or its counsel made such a contribution. Pursuant to Supreme Court Rule 37.3, counsel for *amici curiae* represent that all parties have consented to the filing of this brief. Lexmark International, Inc. filed a notice of its consent to the filing of all *amicus curiae* briefs in support of either party or of neither party, and Impression Products, Inc. gave written consent to counsel for *amici curiae* to file this *amici curiae* brief.

wireless connectivity and power management, advanced materials, and others.

Nokia and its parent company have been involved in numerous patent cases in U.S. district courts and the U.S. International Trade Commission, both as a plaintiff/complainant and a defendant/respondent. These include cases where allegations of patent exhaustion have been made against Nokia and where Nokia has made allegations of patent exhaustion against others. Nokia is a significant patent owner that might seek remedies for patent infringement in district courts or the ITC, including in situations where alleged exhaustion may be an issue. Nokia is also actively involved in patent licensing, and it considers established exhaustion principles in formulating its licensing strategies.

Nokia's interest in this case is to advocate for clarity and stability in U.S. exhaustion doctrine and to protect flexibility for parties engaged in licensing negotiations. Clarity and stability ensure contracting parties that their valuable, carefully negotiated agreements will not be undermined by unexpected changes in the U.S. exhaustion doctrine—*e.g.*, through the erosion of its long-established territorial limits or application to more than only unconditional authorizations. Flexibility in licensing fosters economic efficiency. For example, if parties are forced by a significant change in U.S. exhaustion doctrine to license their patents in a strict "all or nothing" approach—or even something approaching this—it risks pricing certain players out of some technology

markets, thus harming incentives and capabilities for innovation.

SUMMARY OF ARGUMENT

Petitioner's attempts to disrupt the long-established U.S. law on patent exhaustion would have a significant negative impact on the innovation community. Consistency and stability are fundamental goals in patent law and are especially important to exhaustion doctrine, where parties rely on the courts' past rulings when making long-term licensing decisions. For example, if U.S. exhaustion doctrine is altered to permit exhaustion of U.S. patent rights based on foreign sales or conditional licenses, a party that was authorized for sales only in a foreign country, or granted only limited rights, could receive a significant, and unintended, windfall. Allowing conditional sales or licenses to exhaust U.S. patent rights may also limit the bargaining options of licensors and licensees, who often negotiate conditional licenses for a fraction of the price of unconditional licenses, thus potentially frustrating parties' ability to resolve their disputes.

Altering the territorial scope of the U.S. exhaustion doctrine would also put the U.S. out of step with the international patent community and further discourage innovation by requiring patent owners to invest heavily in regulating *foreign* sales in order to protect their patent rights in the United States. For all of these reasons, this Court should uphold the long-established patent exhaustion doctrines set forth in

the Federal Circuit's *Jazz Photo* and *Mallinckrodt* line of cases.

ARGUMENT

I. Altering the Scope of the U.S. Patent Exhaustion Doctrine Will Upset Existing Patent Licensing Practices

This Court has warned against disrupting the expectations of the innovation community. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 724 (2002) ("[C]ourts must be cautious before adopting changes that disrupt the settled expectations of the inventing community."). This comports with Congress's desire for consistency and stability in courts' application of patent law, as evidenced by the formation of the Federal Circuit:

> The purposes of consistency and stability that underlie *stare decisis* led to the formation of the Federal Circuit, now thirty years past, to provide consistency and stability to the patent law: 'The central purpose is to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law,' H.R. Rep. 97-312, at 23 (1981), in view of the importance of technology-based advance to the nation's economy, *id.*; S. Rep. 97-275, at 6 (1981) (same).

Lighting Ballast Control LLC v. Philips Elecs. N. Am. Corp., 744 F.3d 1272, 1282 (Fed. Cir. 2014).

"[R]eliance interests are important considerations in property and contract cases, where parties may have acted in conformance with existing legal rules in order to conduct transactions." *Citizens United v. Fed. Election Comm'n*, 558 U.S. 310, 365 (2010). The aspects of U.S. patent exhaustion law under review have been settled for well over a decade, based on cases dating back to the nineteenth century: U.S. patent exhaustion is limited to unconditional, authorized sales within the United States. *See Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001) ("[A] lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States.") (citing *Boesch v. Graff*, 133 U.S. 697, 704 (1890)); *General Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 126 (1938) ("the patentee may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.'") (citing *General Electric*, 272 U.S. at 489); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708-09 (Fed. Cir. 1992).

Existing licenses have been entered into based upon this long-established doctrine. If this Court were to, in our view wrongly, alter the basic territoriality doctrine of U.S. patent exhaustion, or modify the rule that exhaustion arises only upon an unconditional authorization, it will upset many carefully negotiated bargains. This could amount to a judicially created

windfall for some contracting parties, while ambushing U.S. patent holders with the abolishment of previously secure rights. Indeed, the Federal Circuit recently warned that "an expansion of exhaustion doctrine could do harm to existing patterns of licensing." *Helferich Patent Licensing, LLC v. New York Times Co.*, 778 F.3d 1293, 1307 (2015).

For example, under existing precedent, a patent owner could enter into a license agreement under which the patent owner granted license rights under patents in any country where the licensee itself sold products implementing inventions covered by the licensed patents and the licensee paid for only the patent rights in those countries where its sales were made. If the licensee then sold products in a foreign country pursuant to the license, that sale would be licensed under the foreign patents, but would not exhaust any U.S. patent rights under existing exhaustion doctrine.

If existing U.S. exhaustion doctrine were altered to eliminate the territorial restriction, the licensee in this scenario could sell the products outside the U.S., and the purchaser could then import those products into the U.S. and resell them without paying anything for the U.S. license rights needed to authorize U.S. sales. Because the licensing parties did not value the license based on the U.S. patent rights needed for U.S. sales, such a change in exhaustion law would disrupt the parties' agreement and provide an improper windfall to the licensee by

granting U.S. patent rights that it did not pay for in the license, to the detriment of the U.S. patent owner.

Further, as discussed above, patentees who grant conditional licenses do not receive the full value of their U.S. patent rights because the licensee only pays for a certain subset of those rights. If foreign or conditional sales or licenses resulted in U.S. patent exhaustion, patentees would be forced to significantly alter current licensing practices. Specifically, in order to recoup the full value of their U.S. patent rights, patentees would have to charge more for limited conveyances of their rights or simply refuse to grant such limited licenses. These increased obstacles to licensing would likely result in more disputes that cannot be resolved through private negotiations, causing both a significant disruption in patent licensing and a corresponding increase in infringement litigation.

It is imperative that, in order to honor the intention of existing licenses and allow for the most economic efficiency in crafting new licenses, U.S. patentees retain the ability to include provisions in their patent licenses that impose territorial restrictions or other conditions on such sales. As discussed above, altering established exhaustion doctrine to eliminate this ability would greatly disrupt the U.S. patent licensing system

II. Abolishing the Territorial Limit on U.S. Patent Exhaustion Will Put the United States Out of Step with the International Community

Many of the major countries with which the U.S. is engaged in international trade do not apply a theory of international exhaustion. For example, the European Union, which is the U.S.'s main trading partner for goods and services[2], does not recognize international exhaustion. Instead, many countries in the European Union apply regional exhaustion, under which only sales of patented goods within member countries exhaust the European patent rights of the patent owner. *See* Agreement on the European Economic Area, Arts. 8-16; Treaty on the Functioning of the European Union, Arts. 26, 28-37. If articles that are patented in these countries are sold in the U.S., the patentee's rights under European patents remain intact, and he can sue for infringement if those goods make their way back into the European Union through the robust trading system between the two countries. These European Union countries are thus able to restrict the flow of goods from the U.S.

If the Court abolishes the well-established doctrine of territorial exhaustion in the U.S., goods that are protected by a U.S. patent and sold in any country in the European Union or elsewhere in the

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[2] *See* http://ec.europa.eu/eurostat/statistics-explained/index.php/USA-EU - international_trade_and investment_statistics

world could be imported into the U.S. and freely sold. This would put U.S. patent owners at a significant disadvantage compared to patent owners in other countries, such as the European Union. The Court should therefore uphold the territorial limit on patent exhaustion.

III. Altering the Doctrine of Patent Exhaustion Will Increase the Expense, Frequency, and Complexity of Patent Litigation

The territorial limit on U.S. patent exhaustion fosters simplicity and clarity of adjudication. The scope of patent protection and the standards for determining infringement in each country vary greatly. If U.S. patent exhaustion is allowed to turn on the status of patent protection in a foreign country, patent owners would be required to obtain patents in every potential foreign market. This would invite added complexity and litigation over issues including the status of foreign patent rights, if any, the nature of foreign sales, and the extent of any authorization provided by the licensor in a foreign market. Dealing with these issues may also increase litigation costs, for example, by requiring parties to provide trial courts with expert assistance on foreign law. The current, long-established U.S. exhaustion doctrine avoids these issues.

In addition, foreign jurisdictions rely on the territorial nature of the U.S. patent exhaustion doctrine, and foreign courts make decisions about the scope of the exhaustion doctrine based on the expectation that the United States restricts

application of the doctrine to its own territorial reach, while respecting the exhaustion rules of other sovereign nations. *See HTC Corp. v. Nokia Corp.*, [2013] EWHC (Pat.) 3247 ¶¶ 168, 179-80, 184-88 (Oct. 30, 2013) (U.K.), available at http://www.bailii.org/ew/cases/EWHC/Patents/2013/3247.pdf. Altering the territorial scope of the exhaustion doctrine would frustrate not only the expectations of U.S. patent owners, but also the expectations of foreign jurisdictions.

IV. Petitioner's and *Amici*'s Arguments in Favor of International Exhaustion are Unavailing

Petitioner argues that, under the current long-established territorial exhaustion doctrine, patent owners are able to extract two rewards for the sale of the same good – one when the good is sold overseas and another when the good is imported into the U.S. (Br. Pet. at 57-58). This argument falls flat. As a result of the variability of the patent protections afforded by different countries, "it can be practically impossible for an owner of United States patent rights in an invention to extract the value of those rights when a patented article is sold elsewhere." 6 R. CARL MOY, MOY'S WALKER ON PATENTS § 19:44. Consider, for example, a patentee who negotiated payment for and granted only limited rights covering foreign sales activities. The patentee has not extracted any reward for its U.S. patent rights, and should be able to continue to enforce its US patent rights if goods sold abroad make their way back into the U.S. This is not receiving two rewards for the same right; rather, it is

a separate reward for two separate rights. This allows the patentee to price the license to each right separately, and the licensee to pay only for the rights it needs.

Other a*mici* argue that applying a territorial exhaustion doctrine results in non-practicing entities buying previously licensed patents and seeking second and third patent rewards for those patents (Brief of Intel Corp., Dell Inc., and VIZIO Inc. as *Amici Curiae* at 14-16). But this argument is nonsensical. It is well-established that the licenses that are attached to a U.S. patent travel with that patent when it is sold or assigned. *Datatreasury Corp. v. Wells Fargo & Co.*, 522 F.3d 1368, 1372 (Fed. Cir. 2008) ("[B]ecause the owner of a patent cannot transfer an interest greater than that which it possesses, an assignee takes a patent subject to the legal encumbrances thereon."). The purchaser or assignee of that patent cannot extract additional rewards for patent rights that have already been licensed. But the purchaser of a patent should be able to recoup any additional rewards for rights not previously licensed that would have been available to the original patentee. Modifying established exhaustion doctrine to limit the rights available to a bona fide purchaser would have no basis in law and would contradict the requirement that patents "shall have the attributes of personal property...assignable in law...." 35 U.S.C. § 261.

CONCLUSION

For the foregoing reasons, as well as those stated in Respondent's merits brief and supporting

amici briefs, the Court should uphold the long-settled rule – upon which many existing transactions have been based – that only unconditional, authorized sales in the United States exhaust U.S. patent rights.

Respectfully submitted,

JOHN D. HAYNES
Counsel of Record
LINDSEY YEARGIN
ALSTON & BIRD LLP
1201 W. Peachtree St.
Atlanta, GA 30309
Tel. (404) 881-7000
john.haynes@alston.com

Counsel for Amici Curiae

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Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF FOR PHARMACEUTICAL RESEARCH AND MANUFACTURERS OF AMERICA AS AMICUS CURIAE IN SUPPORT OF RESPONDENT

R. REEVES ANDERSON
ARNOLD & PORTER
KAYE SCHOLER LLP
Suite 4400
370 Seventeenth St.
Denver, CO 80202
(303) 863-1000

JAMES C. STANSEL
DAVID E. KORN
PHRMA
950 F Street, NW
Suite 300
Washington, DC 20004

JEFFREY L. HANDWERKER
Counsel of Record
JOHN E. NILSSON
DAVID K. BARR
SALLY L. PEI
ARNOLD & PORTER
KAYE SCHOLER LLP
601 Massachusetts Ave., NW
Washington, DC 20001
(202) 942-5000
jeffrey.handwerker@apks.com

Counsel for Amicus Curiae

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

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INTEREST OF AMICUS CURIAE[1]

The Pharmaceutical Research and Manufacturers of America (PhRMA) is a voluntary, nonprofit association representing the nation's leading research-based pharmaceutical and biotechnology companies. PhRMA's member companies research, develop, and manufacture medicines that allow patients to live longer, healthier, and more productive lives. In 2015 alone, they invested an estimated $58.8 billion to discover and develop new medicines. Pharmaceutical Research and Manufacturers of America (PhRMA), 2016 PhRMA Annual Membership Survey 5 (2016), http://goo.gl/JmXEpY. PhRMA's mission is to advocate for public policies that encourage the discovery of life-saving and life-enhancing medicines. PhRMA closely monitors legal issues that affect the pharmaceutical industry and frequently participates as an *amicus curiae* in cases before this Court.

Among other issues, this case presents the question whether, in light of the Court's holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), the Federal Circuit correctly reaffirmed its precedent that the owner of a U.S. patent does not exhaust its U.S. patent rights by selling a product covered by that patent abroad. That question is critically important to the pharmaceuti-

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[1] No counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. No one other than *amicus curiae*, its members, or its counsel made a monetary contribution to the preparation or submission of this brief. All parties have consented to the filing of this brief.

cal industry, which relies heavily on patent protection in researching, developing, and testing medicines and in bringing new products to market, both in the United States and overseas. PhRMA submits this brief to explain the importance of the rule against automatic exhaustion of patent rights by foreign sale to the pharmaceutical industry's ability to continue to develop innovative, life-saving medicines and treatments for patients.

INTRODUCTION AND SUMMARY OF ARGUMENT

For more than a century, U.S. patent holders have operated on the understanding that their U.S. patent rights survive a first foreign sale. That rule is necessary to preserve the rights of U.S. patent holders against the uneven patchwork of patent laws around the world. The continued vitality of the rule is of particular importance to PhRMA's members, who rely heavily on strong patent protection to safeguard their investments in the development of important, life-saving medications.

Petitioner seeks to bring about a sea change in the law of patent exhaustion. Notwithstanding this Court's repeated warnings against conflating copyright and patent principles, petitioner and certain *amici* ask this Court to cast aside settled principles of patent law, and instead impose in the patent context an inapposite rule from copyright law, under which a first foreign sale automatically exhausts U.S. copyright protections. But copyright and patent laws differ in fundamental ways—both with respect to the nature, scope, and duration of the legal protections they provide, and with respect to the uniformity of those protections across international borders. Those differences belie any superficial

equivalence between these two distinct areas of intellectual property law, and preclude transposing doctrines from one context to the other.

Adopting petitioner's proposed automatic international-exhaustion rule would not only be contrary to established precedent; it would also have resounding and deleterious effects for patent-holders—including pharmaceutical manufacturers. Patent protection is critical to prevent entities from purchasing U.S.-patented pharmaceutical products abroad (often for lower prices than they are sold on the U.S. market for reasons such as foreign government price controls) and then reselling them on the grey market in the United States. The ability of pharmaceutical companies to enforce their U.S. patent rights against parallel importers protects their investment in pharmaceutical research, enabling the industry to continue to develop critical new drugs and treatments.

Petitioner's proposed international-exhaustion rule would imperil future pharmaceutical research. It would also undermine the foundational principle of innovation that has placed the United States at the forefront of the search for medical breakthroughs. This Court should decline to rewrite settled principles of patent exhaustion doctrine and should affirm the decision below.

ARGUMENT

I. The Copyright Rule of International Exhaustion Does Not Apply in the Patent Context

This Court should not transpose the international copyright-exhaustion rule that it adopted in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), to the patent context. The Court has long

cautioned against relying on analogies between copyright and patent law: "There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which relate to the one subject are not altogether controlling as to the other." *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 346 (1908) (quotation marks and citation omitted). Patent and copyright law "are not identical twins," and this Court "exercise[s] ... caution ... in applying doctrine formulated in one area to the other." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984).

Patent and copyright law differ in critical ways. While a copyright exists upon creation of the work, 17 U.S.C. § 102(a), a patent is issued after the U.S. Patent Office examines and approves the inventor's patent application for compliance with the statutory criteria for patentability, 35 U.S.C. §§ 101 et seq. A patent provides broader protection than a copyright, as a patent holder may exclude others from "use," whereas a copyright holder may not. *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 13–14 (1913). "Unlike a patent, a copyright gives no exclusive right to the art disclosed; protection is given only to the expression of the idea—not the idea itself." *Mazer v. Stein*, 347 U.S. 201, 217 (1954). A copyright can subsist for more than a century, 17 U.S.C. § 302, whereas a patent is valid for only 20 years, 35 U.S.C. § 154, unless extended for up to 5 additional years, 35 U.S.C. § 156. And whereas international conventions have largely harmonized substantive copyright protection across the globe, *see Golan v. Holder*, 565 U.S. 302, 307–10 (2012), patent law remains a territorial regime, and the scope and enforcement of

patent rights varies widely from country to country, *see Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454–55 (2007); *infra* pp. 7–8.

Kirtsaeng itself implicitly recognized and rejected any equivalence between copyright and patent law. The opinion contains no discussion of patent law generally or the doctrine of patent exhaustion or "first sale" specifically. Instead, *Kirtsaeng*'s holding that "[t]he 'first sale' doctrine applies to copies of a copyrighted work lawfully made abroad," 133 S. Ct. at 1352, turned on the interpretation and statutory history of § 41 of the Copyright Act, which codifies the copyright first-sale doctrine. 17 U.S.C. § 109(a). The Patent Act has never contained an analogous provision, so the Court's interpretation of the Copyright Act in *Kirtsaeng* does not and cannot control the issue here.

The Court in *Kirtsaeng* also relied on the common-law first-sale doctrine in copyright law to bolster its statutory interpretation. But that doctrine bears little more than superficial resemblance to the first-sale doctrine in patent law. Unlike the copyright first-sale doctrine, which was codified in the 1909 Copyright Act, the patent first-sale doctrine has continued to evolve over the past century and has important distinctions from its copyright counterpart. For example, whereas "the common-law [copyright first sale] doctrine makes no geographical distinctions," *Kirtsaeng*, 133 S. Ct. at 1363, the common-law patent first-sale doctrine does draw such distinctions.

Thus, in *Boesch v. Graff*, 133 U.S. 697 (1890), the Court found that importation into the United States of articles lawfully acquired in Germany without the patent owner's consent constituted patent infringe-

ment, because "[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Id.* at 703. Petitioner and its *amici* emphasize that the German seller in *Boesch* lacked authority from the U.S. patent-holder to sell the U.S.-patented product in Germany. *E.g.*, Pet. Br. 51–53; Abbott Br. 13–14. But that distinction is irrelevant here. The point—true in *Boesch* as well as in this case—is that the purchaser lacked authority to import and resell the invention in the United States simply by virtue of a foreign sale. The Federal Circuit has reaffirmed that principle on numerous occasions, including in the decision below. *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 774 (Fed. Cir. 2016) (en banc); *Ninestar Tech. Co. v. ITC*, 667 F.3d 1373 (Fed. Cir. 2012); *Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010); *Fuji Photo Film Co. v. Benun*, 463 F.3d 1252, 1255–56 (Fed. Cir. 2006); *Jazz Photo Corp. v. ITC*, 264 F.3d 1094, 1105 (Fed. Cir. 2001).

In short, the mere fact that copyright and patent law both have "first sale" doctrines is no reason to apply the copyright principles formulated in *Kirtsaeng* to patent law. *See* Pet. Br. 47–48. *Kirtsaeng* concerned a specific statutory provision that has no patent-law analogue. And the basic distinctions between copyright and patent law—with respect to the nature and scope of protection, and the uniformity of that protection across international borders—preclude simply transposing *Kirtsaeng*'s copyright-specific international-exhaustion rule to the patent context.

II. The Rule Against International Patent Exhaustion Is Necessary To Protect the Rights of U.S. Patent Holders Who Sell Products Abroad

In view of the unique features of patent law—in particular the territorial nature of patent rights—the rule against exhaustion of patent rights by foreign sale is critical to protecting the intellectual property rights of U.S. patent holders who sell their products overseas.

Patent laws are not uniform across international borders. International patent law is founded on the concept of "independence of patents," under which the patent law and decisions of one country have no impact on the validity or effect of patents issued in another country. Paris Convention for the Protection of Industrial Property art. 4bis, Mar. 20, 1883 (as amended Sept. 28, 1979), 21 U.S.T. 1583, 828 U.N.T.S. 305; *see* Abbott Br. 8–9. Thus, while the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) establishes basic substantive criteria for obtaining a patent, it leaves the actual administration of patent protection to individual countries. TRIPS, Apr. 15, 1994, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994).

U.S. patent law itself does not apply extraterritorially. As this Court has explained, "[t]he presumption that United States law governs domestically but does not rule the world applies with particular force in patent law." *Microsoft*, 550 U.S. at 454–55. "Our patent system makes no claim to extraterritorial effect; 'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States.'" *Deepsouth Packing Co. v.*

Laitram Corp., 406 U.S. 518, 531 (1972) (citation omitted).

Given the territorial limits of patent rights and the fact that U.S. patent protections do not apply beyond U.S. borders, it would be anomalous to extend the American patent-exhaustion doctrine to activities in other countries. Petitioner's proposed automatic exhaustion rule would give parallel importers an absolute U.S.-law shield for overseas sales, while patent owners lack any sword with which to enforce their U.S. patent rights abroad. A rule that a foreign sale automatically exhausts U.S. patent rights would severely undermine a U.S. patent holder's interests and the expected economic value of its U.S. patent—solely because the patent holder sold its products in a country that may provide dramatically different patent protection from the United States, or even no patent protection at all.

These concerns are especially pressing for the pharmaceutical industry. Pharmaceutical manufacturers strive to maximize patient access worldwide to the important medicines and treatments that they have developed. But weak foreign patent regimes, which provide companies little assurance that their intellectual property will be protected, could discourage companies from entering certain markets. *See* Iain Cockburn, Jean O. Lanjouw & Mark Schankerman, *Patents and the Global Diffusion of New Drugs*, 106 Am. Econ. Rev. 136 (2014). The existing no-international-exhaustion rule mitigates these concerns to a degree: pharmaceutical companies retain U.S. patent rights that they may assert against parties that attempt to import U.S.-patented drugs first sold abroad into the United States. Abrogating that rule would remove an important safeguard that

protects U.S. patentees against infringement of their U.S. patent rights, when those U.S. patentees take a risk and sell their products in markets where the scope and enforcement of patent rights may be weak or even nonexistent.

III. Safeguarding U.S. Patent Rights Is Critical to Innovation in the Pharmaceutical Industry

The U.S. Constitution and patent laws reflect a careful balance between fostering innovation and promoting free markets. "Pursuant to its power '[t]o promote the Progress of ... useful Arts, by securing for limited Times to ... Inventors the exclusive Right to their Discoveries,' U.S. Const. I, Art. I, § 8, cl. 8, Congress has passed a series of patent laws that grant certain exclusive rights over certain inventions and discoveries as a means of encouraging innovation." *Bilski v. Kappos*, 561 U.S. 593, 621 (2010). "[P]atent protection strikes a delicate balance between creating incentives that lead to creation, invention, and discovery and imped[ing] the flow of information that might permit, indeed spur, invention." *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2116 (2013) (citation and internal quotation marks omitted). The rule that foreign sales do not exhaust U.S. patent rights is critical to preventing foreign policies, laws, and regulations from disrupting the delicate balance that Congress has struck—a balance that is particularly important for the discovery, development, and distribution of new pharmaceutical products.

A. Pharmaceutical companies rely heavily on the period of patent exclusivity to recoup research and development costs

The period of patent exclusivity is essential to allow pharmaceutical innovators a chance to recover the massive research and development costs involved in discovering and testing new drugs, and to enjoy—for a limited period of time—the fruits of their research efforts in the way that Congress intended.

Developing and obtaining regulatory approval for new drugs is extremely time-consuming, risky, and expensive. Drug discovery and development involves significant trial and error. The vast majority of candidate drugs do not make it to market. And the costs of clinical testing and regulatory approval are extremely high. Of the many thousands of candidate drugs screened early in the research process, few ever progress to clinical studies in humans, let alone receive FDA approval. Fewer than 12% of drugs that even enter clinical testing (already a small fraction of the thousands of compounds synthesized in laboratories) ultimately receive approval. Recent estimates have placed the research and development costs behind each new approved drug at nearly $2.6 billion on average. Joseph A. DiMasi, Henry G. Grabowski & Ronald W. Hansen, *Innovation in the Pharmaceutical Industry: New Estimates of R&D Costs*, 47 J. Health Econ. 20, 31 (2016).

In view of the high cost of discovering and developing new medicines, and in order to sustain its ongoing research efforts, the pharmaceutical industry relies heavily on the legal protections that Congress has created for inventors. Many commentators have noted the critical importance of patent protection to incentivize innovation. Without a

period of patent exclusivity, "competition would force prices down to marginal production cost, and the innovator could not recover the cost of [research and development]." Patricia M. Danzon, Pharmaceutical Price Regulation: National Policies Versus Global Interests 8 (1997). Indeed, economic returns on investments in research and development are already uncertain, and average returns have fluctuated over time, showing a decline in the most recent years studied. Ernst R. Berndt et al., *Decline in Economic Returns from New Drugs Raises Questions About Sustaining Innovations*, 34(2) Health Aff. 245, 250-51 (2015).

More than in other industries, patent protection provides a critical incentive for investment in biopharmaceutical research and development. Iain Cockburn & Genia Long, *The Importance of Patents to Innovation: Updated Cross-Industry Comparisons with Biopharmaceuticals*, 25(7) Expert Opinion on Therapeutic Pat. 739, 741 (2015). Patents, combined with existing regulatory exclusivities, remain the core approach to encouraging research and development in the biopharmaceutical industry. Henry Grabowski, Joseph DiMasi & Genia Long, *The Roles of Patents and Research and Development Incentives in Biopharmaceutical Innovation*, 34(2) Health Aff. 302, 309 (2015). Innovation would likely drop substantially without the protection that U.S. patent law currently provides. Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 Va. L. Rev. 1575, 1616–17 (2003); Henry Grabowski, *Patents, Innovation and Access to New Pharmaceuticals*, 5 J. Int'l Econ. L. 849, 853 (2002).

B. The no-foreign-exhaustion rule protects the period of patent exclusivity from encroachment by foreign patent laws or foreign pricing controls

Permitting foreign exhaustion of U.S. patent rights would impinge on the period of patent exclusivity that U.S. law provides patent-holders as an incentive for innovation. In the pharmaceutical context, as the Federal Circuit recognized in the decision below, foreign exhaustion would create "increased arbitrage opportunities" and would "upset [the] established practices" of differential pharmaceutical pricing. *Lexmark Int'l*, 816 F.3d at 772. The resulting downward pricing pressures on pharmaceutical sales in the United States would hinder pharmaceutical companies from using the patent exclusivity period to recover their research and development costs.

While Congress has recognized that giving patentees a time-limited exclusivity period promotes innovation, foreign laws and regulations do not always reflect the same levels of protection. *See Microsoft*, 550 U.S. at 455. That is particularly true with respect to pharmaceuticals. Some countries, such as India and Canada, have imposed additional patentability criteria that allow domestic manufacturers to produce generic versions of innovator drugs protected by U.S. patents without providing the innovators with a period of exclusivity to compensate them for their investments in research and development. *See* Adrienne Blanchard, *Canada's Patent 'Utility' Regime on Trial*, Macdonald-Laurier Institute IP Newsletter (May 12, 2016), https://goo.gl/DH8nPD; Janice M. Mueller, *The Tiger Awakens: The Tumultuous Transformation of India's*

Patent System and the Rise of Indian Pharmaceutical Innovation, 68 U. Pitt. L. Rev. 491, 549-65 (2007) (explaining exclusions from patentability in Indian patent law); *id.* at 582-607 (discussing compulsory patent licenses under Indian law).

The weaker patent protections in these and other countries can contribute to lower drug prices than in the United States. But those weaker patent protections also stifle innovation. Approximately 57% of new drug inventions originate in the United States, due mainly to the exclusivity period that U.S. law grants patent-holders as an incentive for innovation and the enormous investment in research and development in the United States. *See* Ross C. DeVol, Armen Bedroussian & Benjamin Yeo, Milken Inst., *The Global Biomedical Industry: Preserving U.S. Leadership* 19, 26, 34 (2011). Allowing artificially low-priced drugs from countries with weak patent protections to be imported into and resold in the United States would reduce U.S. drug revenues, drastically eroding the value of the patentee's U.S. patent rights and diminishing the incentive to innovate.

In addition, some foreign governments often choose to keep the prices of medicines artificially low within their borders by imposing price controls on the sale of patented drugs that are sold in the United States for higher prices. *See generally* Pharmaceutical Prices in the 21st Century (Zaheer-Ud-Din Babar ed., 2015). Most European governments, for example, control the pricing of at least some medicines (typically prescription drugs) either by setting prices directly or by regulation. *See* Sabine Vogler & Jaana E. Martikainen, *Pharmaceutical Pricing in Europe*, *in* Pharmaceutical Prices in the 21st Century, *supra*,

at 343, 352. In some countries, including Cyprus, Belgium, Greece, Latvia, Lithuania, and Luxembourg, state authorities set prices for all pharmaceutical products. *Id.*

As an initial matter, the rationales for patent exhaustion do not apply when foreign prices have been set by government decree. The patent-exhaustion doctrine rests on the notion that "the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article ... ." *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942). As this Court observed more than 120 years ago, a patentee "[h]aving manufactured the [patented] material and sold it for a satisfactory compensation ... has enjoyed all the rights secured to him by his letters patent." *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 661 (1895). But where prices are set not by the patentee in light of free market forces, but rather by a foreign government, the patentee has not necessarily received "satisfactory compensation" or "enjoyed all the rights secured to him by his letters patent." *Id.*; *see* Michele L. Vockrodt, *Patent Exhaustion and Foreign First Sales: An Analysis and Application of the Jazz Photo Decision*, 33 AIPLA Q.J. 189, 200 (2005). More broadly, a rule that a foreign sale automatically exhausts U.S. patent rights would effectively usurp Congress' policy judgment about the proper balance between innovation and access to medication. It would permit foreign price controls or patent policy to encroach on the U.S. market by encouraging the grey market resale of medicines originally sold in foreign countries, at prices determined by foreign governments.

A foreign-exhaustion rule would expand the grey market in the United States and reduce revenue from drug sales. In short, it would allow other governments' policies to prevent pharmaceutical companies from capturing the very incentives for innovation that Congress promised, and reducing their ability to continue to sustainably invest in research and development. The Court should not permit that result.

C. The no-foreign-exhaustion rule is critical to discovery of and access to future medicines

1. Petitioner and its *amici* do not dispute the staggering research and development costs required to bring a single new medicine to market. Nor do they contest that permitting parallel imports into the United States would result in a decline in U.S. drug revenues. Abbott Br. at 23, 32–33. Instead, they suggest that such a decline would be beneficial to U.S. consumers and people in lower-income countries. *See* Public Knowledge Br. 28; Public Citizen Br. 3; Abbott Br. 19–20.

While PhRMA shares the goal of ensuring access to existing medicines, achieving that short-term goal need not and cannot come at the expense of long-term investment in the search for cures for diseases. *Amici*'s arguments in favor of lower drug prices worldwide overlook the magnitude of research and development costs, and the reality that the few successful new drugs are far outnumbered by the compounds that fail at various stages of the research process. Pharmaceutical companies must recover all these costs—both their successful inventions and their failures—through sales in order to sustain future research efforts. As commentators have noted, parallel imports "can be beneficial to consumers in

the short run," but they "have detrimental effects on incentives to innovate in the long run." Susan J. Méndez, *Parallel Trade of Pharmaceuticals: The Danish Market for Statins* 5 (Melb. Inst., Working Paper No. 8/16, 2016).

Indeed, some commentators have estimated that, taking into account the fact that "intermediaries would likely capture a large part of the price differences," savings to U.S. payers or consumers from parallel imports would likely range from 0.2 to 2.5 percent of current drug spending—*i.e.*, a "minimal impact on aggregate U.S. health care spending." Patricia M. Danzon et al., *Commercial Importation of Prescription Drugs in the United States: Short-Run Implications*, 36 J. Health Pol., Pol'y & L. 295, 303 n.7, 314 (2011). On the other hand, "[r]evenue losses to manufacturers will significantly exceed savings to U.S. payers/consumers," such that "in the long run, U.S. consumers may be worse off due to lower investment in R&D and distortions toward import-exempt products." *Id.* at 314-15.

Amici acknowledge the likely decline in revenue as a result of parallel trade, but they speculate that pharmaceutical companies could compensate for the drop in revenue by "reallocat[ing] budgets." Abbott Br. 24. Professor Abbott even goes so far as to speculate that lowering pharmaceutical prices would actually *increase* federal government funding for drug research. Abbott Br. at 24–25. As an initial matter, the federal government plays only a limited role in discovering and developing new medicines. Between 79 and 91% of drugs are discovered solely by private sector companies. *See* Ashley J. Stevens et al., *The Role of Public-Sector Research in the Discovery of Drugs and Vaccines*, 364:6 N. Engl. J. Med.

535, 540 (2011). But more broadly, there is no basis for Professor Abbott's conjecture that federal government savings on pharmaceutical expenditures by the Veterans' Administration would somehow be passed on for pharmaceutical research by the National Institutes of Health (NIH), a different agency in a different government department.

Private industry invests far more in biopharmaceutical R&D than the federal government. PhRMA members alone invested $58.8 billion in R&D in 2015, *see supra* p.1, while the entire enacted NIH budget for FY 2015 was $30.3 billion, *see Overview of FY 2016 President's Budget*, at 3, National Institutes of Health (NIH), NIH Office of Budget, https://goo.gl/0WWj4f. At the same time, due to the nature of the grants process in life sciences, relying on NIH to fund biopharmaceutical research and development would likely lead to significantly less efficient and more conservative discovery and development of new drugs. *See* Ranjana Chakravarthy et al., *Public and Private Sector Contributions to the Research & Development of the Most Transformational Drugs of the Last 25 Years* 14 (2015).

In any event, reallocation of resources, whether by pharmaceutical companies or by the federal government, is no panacea. A rule of automatic exhaustion by foreign sale would permit foreign regulations to undermine Congress' policy judgments to encourage innovation through patent protection. Adjusting budgets does nothing to address that broader structural concern.

2. Contrary to the suggestion of certain *amici*, *see, e.g.*, Public Citizen Br. 8–13, facilitating parallel imports by adopting an automatic foreign-exhaustion rule would impede, not promote, access to drugs.

The current rule that foreign sales do not exhaust U.S. patent rights allows pharmaceutical manufacturers to independently price and distribute medicines in a socially optimal way. Differences in pricing can provide patients in lower-income countries access to important drugs, while also providing the opportunity for pharmaceutical companies to recoup their costs and continue further research and development.

As commentators have noted, differential pricing addresses "the imperfections of the global market for innovative pharmaceuticals, and it is also consistent with standard norms of equity." Zoltán Kaló, Lieven Annemans & Louis P. Garrison, *Differential Pricing of New Pharmaceuticals in Lower Income European Countries*, 13(6) Expert Rev. Pharmacoeconomics & Outcomes Res. 735, 736 (2013). Patent exhaustion from foreign sales would destabilize this system. The inevitable rise in parallel imports would undermine a pharmaceutical company's ability to set different prices in different markets. And a move away from differential pricing would "reduce the sustainability of pharmaceutical innovation by lowering pharmaceutical prices and the profitability of manufacturers in higher income countries," and at the same time "create[] barriers to the access to medicines ... in lower income countries by increasing pharmaceutical prices overall." *Id.* at 738.

Faced with the prospect of automatic foreign exhaustion—and the inability to assert its patent rights against entities importing drugs first sold in other countries for lower prices—a U.S. patent holder might decide not to sell in a foreign market at all. As one academic has noted, citing an example of a drug product in France, patentholders "may ra-

tionally choose to abandon small markets that contribute minimally to global revenues rather than accept prices that would pull down the revenues that can be achieved in other, larger markets." Danzon, Pharmaceutical Price Regulation, *supra*, at 87. A rule of automatic foreign exhaustion that would permit the importation and resale of U.S.-patented goods from overseas, free and clear of U.S. patent rights, would only compound pharmaceutical manufacturers' concerns about entering foreign markets with stringent price controls or weak patent regimes that result in lower drug revenues.

D. Statutes and regulations limiting importation are insufficient to protect pharmaceutical companies' interests

Petitioner and certain *amici* suggest that other statutes or regulations can address concerns about parallel importation of patented pharmaceuticals, and thus that pharmaceutical companies' concerns about grey markets are unfounded. That is wrong.

1. Some *amici* contend that existing statutes, in particular § 381(d) of the Federal Food, Drug, and Cosmetic Act, should dispel PhRMA's concerns about parallel importation of patented pharmaceuticals. *E.g.*, Public Citizen Br. 7. Section 381(d) prohibits any person other than the original manufacturer of a drug from importing into the United States a prescription drug that was originally manufactured in the United States and then sent abroad.

There are several flaws in that contention. First, the text of the statute makes clear that it applies only to drugs manufactured in the United States, not those produced abroad. A number of PhRMA members manufacture their products outside the United

States for sale both in the United States and abroad. Section 381(d) would not protect those manufacturers from parallel importation.

Second, § 381(d) was designed for a purpose entirely separate from protecting intellectual property rights. Congress explained in enacting § 381(d) that "[l]arge amounts of drugs are being reimported to the United States as American goods returned. These imports are a health and safety risk to American consumers because they may have become subpotent or adulterated during foreign handling and shipping." Prescription Drug Marketing Act of 1987 § 2, Pub. L. No. 100-293 (Apr. 22, 1988). Section 318(d) thus forms part of the FDA's regulatory scheme and is specifically intended to protect the health and safety of the American public.

Third, § 381(d) says nothing about patent rights or remedies. Unlike a U.S. patent, § 381(d) provides no private right to sue for damages, nor enhanced damages for willful patent infringement. Section 381(d) is a poor substitute for those rights. Established principles of U.S. patent law provide that if an entity attempts to exploit price differentials (whether imposed by foreign price controls or by disparate regimes of patent law and protection) by importing U.S.-patented drugs purchased abroad into the United States for resale, the patent holder has the right to bring an action for damages and equitable relief. Abandoning the longstanding rule against foreign exhaustion would deprive U.S. patent holders of their ability to protect their intellectual property and their significant investment of resources in research and development.

Fourth, § 381(d) is subject to discretionary government enforcement; it is not a mechanism for

vindicating private rights. FDA, Regulatory Procedures Manual § 9-1-2 (2017). To PhRMA's knowledge, the federal government has never brought an action under § 381(d) against a parallel importer that legitimately purchased a drug abroad and then sought to resell it in the United States. Section 381(d) cannot substitute for patentees' ability to enforce their own patent rights against infringers.

2. Even as they point to § 381(d) as the solution to the policy implications of their proposed foreign-exhaustion rule, certain *amici* appear to acknowledge that existing regulations are in fact *in*sufficient to protect pharmaceutical companies' interests. These *amici* argue that the pharmaceutical industry should seek "legislation and policy specifically aimed at trade in medicines" to address concerns about drug pricing and arbitrage. Public Knowledge Br. 29; *see also* Public Citizen Br. 7–8; IP Professors Br. 30–31.

Amici essentially are arguing that this Court should rewrite the longstanding doctrine of patent exhaustion (which, in its current form, already serves as a defense against arbitrage and parallel imports), and that the pharmaceutical industry should then lobby Congress to change the rule back for pharmaceutical companies. That makes little sense. And in any event, *amici*'s assertion that legislation and new regulations are the appropriate solution to concerns about drug pricing and parallel trade confirms that Congress is the proper forum to consider these important and complex policy questions. If *amici* or any other parties have concerns about current drug pricing practices, their remedy lies with Congress, not this Court.

IV. The United States' Position Is the Only Potentially Reasonable Alternative to the Status Quo Rule Against International Exhaustion

In its *amicus* brief, the United States recognizes that no basis exists for petitioner's proposed rule of automatic exhaustion of patent rights upon foreign sale. U.S. Br. 26–32. The United States suggests, however, that rather than affirm the longstanding rule that foreign sales do not exhaust patent rights, this Court should adopt an intermediate position, under which a foreign sale *presumptively* exhausts U.S. patent rights, unless the patentee clearly communicates its reservation of U.S. rights. U.S. Br. 33.

The United States offers little doctrinal support for its proposed rule. But the United States' position would allow the patentee to preserve its rights by "expressly communicat[ing] an express reservation" of its U.S. rights upon the first sale. U.S. Br. 33. While PhRMA strongly believes that the current rule of no international exhaustion should prevail, the U.S. position at least has the merit of preserving a patent holder's ability to protect its rights.

* * *

Congress has long recognized—in keeping with the principle enshrined in the Constitution—that strong patent protections are an essential incentive to innovation. A new rule of automatic international exhaustion of patent rights would undermine that longstanding congressional policy. It would open the doors to parallel imports of U.S.-patented products, thereby imposing foreign pricing decisions on U.S. markets. This Court should decline petitioner's invitation to rewrite settled principles of patent law.

CONCLUSION

This Court should affirm the judgment below.

Respectfully submitted,

R. REEVES ANDERSON
ARNOLD & PORTER
KAYE SCHOLER LLP
Suite 4400
370 Seventeenth St.
Denver, CO 80202
(303) 863-1000

JAMES C. STANSEL
DAVID E. KORN
PHRMA
950 F Street, NW
Suite 300
Washington, DC 20001

JEFFREY L. HANDWERKER
Counsel of Record
JOHN E. NILSSON
DAVID K. BARR
SALLY L. PEI
ARNOLD & PORTER
KAYE SCHOLER LLP
601 Massachusetts Ave., NW
Washington, DC 20001
(202) 942-5000
jeffrey.handwerker@apks.com

Counsel for Amicus Curiae

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IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF PLANTRONICS, INC. AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

FRANÇOIS DEVILLIERS
JEREMY DESROSIER
PLANTRONICS, INC.
345 Encinal Street
Santa Cruz, CA 95060
(831) 426-5858

DAVID BOHRER
MERCHANT & GOULD LLP
55 S. Market, Suite 1500
San Jose, CA 95113
(408) 938-3883

RACHEL C. HUGHEY
Counsel of Record
MERCHANT & GOULD PC
3200 IDS Center
80 South Eighth Street
Minneapolis, MN 55402
(612) 336-4688
rhughey@merchantgould.com

Counsel for Amicus Curiae Plantronics, Inc.

[redacted], 2017

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INTEREST OF *AMICUS CURIAE*[1]

Plantronics, Inc. ("Plantronics") (NYSE:PLT) is a leading global designer, manufacturer, and marketer of headsets for business and consumer applications under the Plantronics brand, and specialty products for hearing impaired individuals under the Clarity brand.[2] Its headsets are widely used for applications such as Unified Communications, in contact centers, in the office, and in the home, with mobile devices employing Bluetooth wireless technology and Internet telephony, for gaming, fitness, music and other specialty applications.[3]

Plantronics' history is that of continued innovation and leadership in the development of hands-free communications for over 50 years. The company was founded in 1961 by two pilots working in a garage in Santa Cruz, California to develop an alternative to conventional commercial aviation headsets. In 1963, the Federal Aviation Administration selected Plantronics as its sole headset provider. The first words spoken from the moon in 1969 by Neil Armstrong—"that's one small step for man; one giant leap for mankind"—were spoken through a Plantronics headset.[4]

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1. Petitioner's counsel of record consented to the filing of this brief. Respondent's counsel of record consented to the filing of this brief by filing a blanket consent with the Clerk. No counsel for any party has authored this brief in whole or in part, and no person or entity, other than the *amicus* or its counsel, has made a monetary contribution to the preparation or submission of this brief.

2. Plantronics, Inc. 10-K (2016), *available at* https://tinyurl.com/hs3ty45 ("Plantronics 10-K").

3. *Id.*

4. Plantronics Annual Report 2016, Innovation Timeline, at 4-6, *available at* https://tinyurl.com/gqap5ra.

Plantronics has continued to pioneer new trends and technologies to meet the communication needs of its customers, whether for business, government, or personal entertainment. Plantronics is now used by every company in the Fortune 100™, as well as by 911 dispatchers and air traffic controllers, and in other mission-critical scenarios by government agencies around the world, including NASA and the military.[5]

Plantronics and its subsidiaries design and manufacture finished products, meaning that its headsets are engineered, assembled, and packaged such that they arrive in their respective markets in compliance with the pertinent regional laws and regulations, ready for immediate purchase and use by the end-user.

These finished products are widely recognized to be of the highest quality. Plantronics has received a number of celebrated product awards and accolades, including recognition from PC Magazine, CNET, the Consumer Technology Association, and BusinessWeek, as well as multiple Red Dot and International Forum (iF) product design awards.[6]

Plantronics' finished products are shipped to approximately 80 countries through a network of distributors, resellers, wireless carriers, original

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5. Plantronics 10-K; Plantronics Customer Care Now Offers Global Customer Support 24 Hours A Day, Six Days A Week (Feb. 6, 2017), *available at* https://tinyurl.com/j8vt29l.

6. *See* http://tinyurl.com/j8kvtok; http://tinyurl.com/h96b723; http://tinyurl.com/z6h7ttd; http://tinyurl.com/z2vnv59; http://tinyurl.com/h3defaf.

equipment manufacturers, and telephony and other service providers. In fiscal years 2016, 2015, and 2014, net revenues outside the U.S. accounted for approximately 44%, 44%, and 42%, respectively, of Plantronics' total net revenues.[7]

Plantronics protects the innovative technologies embodied in the design and operation of its products by seeking patent protection where this is commercially appropriate, as well enforcing trademark, trade dress, copyright, domain name, and other intellectual property rights. As of February 23, 2017, there are approximately 370 U.S. design and utility patents issued to Plantronics that are currently in-force.

Plantronics brings a unique, but no less compelling, perspective on international exhaustion as compared to other *amici*. In particular, the experience of Plantronics and other manufacturers of high-quality finished goods that are offered for sale overseas is that, due to recent innovations in shipping logistics and the world wide web, products designed for and sold into a particular jurisdiction rapidly make their way onto third-party marketplaces such as Amazon Marketplace or eBay. Consequently, these grey goods are being offered for sale in jurisdictions for which those products were never intended—and may not even be legal.

Consumers of Plantronics' goods are increasingly turning to these third-party marketplaces with largely anonymous resellers to purchase Plantronics products. These buyers often seek little more than the lowest

7. Plantronics 10-K.

price with immediate delivery, believing that the sale is authorized and legitimate—and fail to appreciate that the goods offered for sale under a single product listing together with authorized products may actually differ as to packaging, accessories, warranty, support, and technical capabilities. As a result, Plantronics has empirically identified a growing trend of dissatisfaction amongst its U.S.-based consumers who find themselves in receipt of grey goods not intended for the U.S. market.

Plantronics agrees with the Federal Circuit's decision and its legal analysis and largely agrees with Lexmark's legal analysis of both questions before the Court, and will not burden the Court by repeating it.[8] Plantronics submits this brief to assist the Court with its understanding of the practical impact of its decision relating to the issue of international patent exhaustion. Patent exhaustion, if applied to Plantronics' foreign sales, interferes with Plantronics' ability to ensure that all of its products delivered to end-users within the U.S. meet the quality expectations and regulatory requirements of the U.S. market, which it presently endeavors to ensure, at least in part, through anti-grey market efforts. Plantronics has a substantial interest in the proper resolution of this case, namely that an authorized foreign sale does not exhaust United States patent rights.

SUMMARY OF ARGUMENT

The combination of the rise of online marketplaces such as Amazon Marketplace and eBay and cheap international shipping enables virtually anyone, anywhere

8. *See* Respondent Brief.

in the world, to make sales into the United States. In some of these online marketplaces, the products may be listed in a way as to create the impression that the products for sale are authorized by the original manufacturer when, in fact, they are not. Instead, the product may have been purchased in a foreign location by a third party (and then stored for some indeterminate amount of time and in an unknown way) before being sold into the United States. Products purchased in foreign jurisdictions and then re-sold by third-party resellers into the United States without authority are known as "grey goods" or "grey market goods."

Grey goods undermine an innovator's ability to control quality of the product and presentation, as well as pre- and post-sale services and warranties. Third-party resellers are not bound by quality requirements, are generally not interested in the end-user other than to make a sale, are unconcerned about regulatory or other market-specific requirements, and have no vested interest in the brand. Grey goods harm Plantronics, harm its partnerships, and harm its customers, much as they harm other innovators. International exhaustion would devalue U.S. patents by destroying the essential geographical nature of U.S. patent rights. Allowing international exhaustion of patent rights due to foreign sales would harm consumers and innovators like Plantronics because it limits a tool that innovators can use to police against grey goods.

This brief focuses on the second question before this Court, explains the harms of grey goods to both innovators and consumers, and demonstrates that this Court should not overrule the status quo and permit the authorized sale of products in foreign jurisdictions to exhaust U.S. patent rights.

ARGUMENT

I. Innovators' businesses and reputations are harmed by grey goods.

Plantronics is an innovative company with a reputation for providing exceptionally high-quality products and excellent customer experience. It does this by managing the distribution of its products and offering its products exclusively through its authorized partners. Without a substantial marketing and advertising budget or its own specialty storefronts, Plantronics relies heavily on positive customer experiences and favorable customer reviews that are conveyed by word-of-mouth or posted online. Thus, Plantronics is particularly sensitive to any negative customer experiences, which are not easily mitigated.

The experience of Plantronics and other manufacturers of high-quality finished goods that are offered for sale overseas is that products designed for and sold into a particular jurisdiction rapidly make their way onto third-party marketplaces. These grey goods are being offered for sale by third-party resellers with whom there is no privity of contract and consequently they are not constrained by any claim by Plantronics that they have breached a contractual obligation.

On the sellers' side, international price differentials, product differences, and fluctuating exchange rates allow grey goods resellers to obtain advantageous pricing on goods.[9] Sometimes, the inventory on which such

9. Seth E. Lipner, The Legal And Economic Aspects Of Gray Market Goods (1990).

differences exist are diverted even before they reach their intended country of sale, avoiding the local regulations or other circumstances for which price adjustments may have been made. Sometimes, non-U.S. distributors and resellers sell excess inventory in bulk at or near cost to grey goods resellers that intend to resell the goods to end-users both in the U.S. and elsewhere around the world. At other times, grey good resellers misrepresent themselves as local end-users to obtain the product at favorable pricing in the country in question.

To these grey goods resellers, third-party marketplaces, with programs that facilitate global shipping or provide advanced international fulfillment networks, render it just as easy to sell across the world as it is to sell domestically. For example, Amazon notes that as a result of opening "its virtual doors to let other third-party companies sell products on Amazon.com . . . 'most of the hundreds of millions of products [on Amazon.com] are offered by third-party sellers, rather than Amazon itself.'"[10] Moreover, Amazon provides these third-party sellers with payment processing and disbursement services, as well as access to Amazon's logistics network, such that a third-party seller can send their inventory to be sold on Amazon Marketplace in advance, and when a customer orders a product from the third-party seller, Amazon "pulls the product off the shelf, packages it, and ships it to the customer on behalf of the seller."[11] Amazon has built relationships with carriers such as the U.S.

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10. *Milo & Gabby LLC v. Amazon.com, Inc.*, No. 16-1290, Response Brief of Defendant-Appellee Amazon at 6, filed April 21, 2016, ECF No. 24 (Fed. Cir.).

11. *Id.* at 5, 9.

postal service, UPS, and FedEx, and, "[w]ith fulfillment centers strategically placed around the country, Amazon can ship products from the closest fulfillment center to the customer 'quicker than if the seller is shipping the product directly to the customer themselves.'"[12] Often, third-party marketplaces allow sellers to attach an offer for sale to a pre-existing product listing, such that multiple sellers can offer a product for sale by providing little more than a sales price.[13]

On the other side of the transaction, consumers are turning to these third-party marketplaces, with largely anonymous resellers,[14] to purchase their electronic devices. In fact, electronic devices likely constitute the largest share of grey goods sold on the Internet.[15] These buyers often seek little more than the lowest price with immediate delivery, believing that the sale is authorized

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12. *Id.*

13. *See, e.g., id.* at 6-8; *see also* Amazon's instructions for creating a listing by way of the "Sell yours here" button, *available at* https://tinyurl.com/zd4hzd4.

14. Investigations into lowest price "U.S.-based" resellers of Plantronics goods routinely lead to sellers, and their goods, that are actually located in Asia, including, for example, countries such as Malaysia, Hong Kong, Singapore, and Indonesia.

15. Soumava Bandyopadhyay, *The internet and gray marketing*, Int'l Bus. & Economics Research J., 9(6), at 95 (June 2010), *available at* http://tinyurl.com/gwfr45k. In 2002, KPMG estimated that consumer electronics ("computers and related products") were amongst those most affected by grey market activity, with up to $40 billion in annual grey market sales. *See* KPMG International, The Grey Market, Full Survey Report at 3 (2002), *available at* http://tinyurl.com/jhttz43.

and legitimate—and fail to appreciate that the goods offered for sale under a single product listing together with authorized products may actually differ as to packaging, accessories, warranty, support, and technical capabilities. As a result, Plantronics has empirically identified a growing trend of dissatisfaction amongst its U.S.-based consumers who find themselves in receipt of goods not intended for the U.S. market.

A. Grey goods are often damaged or otherwise inappropriate for the jurisdiction and often result in a poor customer experience and damage to innovators' reputations.

Plantronics has found that grey goods sold by unauthorized third-parties lead to significantly diminished customer experiences. The lowest price is not the only thing that matters to the customer, and purchasers of grey goods often have poor end-user experiences.

Some Plantronics products are designed, and legally only intended, to operate in specific jurisdictions. Different countries have different electrical supply configurations. Electrical sockets in the United States differ from sockets in Singapore, which differ from sockets in Australia, etc. A power adapter designed for a foreign market will not necessarily work in a socket in the United States. Products sold in different countries may have incompatible plugs and accessories. Thus, consumers receiving grey goods may receive products that include incompatible accessories.

Moreover, many Plantronics headsets include voice prompt functionality that informs a headset wearer

of incoming calls, headset status, or battery level by way of in-ear announcements, and/or voice command functionality that allows the headset wearer to manage his or her phone calls without pressing any buttons (*e.g.*, by speaking "answer" or "ignore," etc.). These functionalities are localized, prior to shipping, to match the destination market. In other words, headsets delivered to China are pre-configured to speak and understand Chinese, headsets delivered to the United States are pre-configured to speak and understand American English, and headsets delivered to the United Kingdom are pre-configured to speak and understand British English. This correlation carries over into other countries within South America, Africa, Europe, and Asia. It likely does not need to be stated that a headset configured to respond to Chinese or Spanish voice commands will not respond to spoken English; but, due to differences in American English and British English speaking patterns, it is likely that even a headset configured to respond to British English will frustrate an American English-speaking user. Some headsets ship with language packages that are not user upgradeable. Some headsets contain language packages that are user upgradeable, but the user must connect the headset to an Internet-connected computer in order to obtain a new language package and replace the language package installed on the headset. In either case, a U.S.-based consumer that receives a headset originally intended for another country, and not configured with American English, is likely to have a lackluster initial customer experience because the product, at the moment it is unpackaged and placed in their ear, will not be ready for use as expected.[16]

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16. Alternatively, the headsets might be opened and tampered with (or damaged by) the grey goods reseller in an attempt to address this issue.

Alternatively, because grey goods are purchased in foreign locations and then sold into the United States, they are often opened and then repackaged with loose, missing, or replaced parts in an attempt to substitute the location-specific accessories with the proper accessories for the United States. For example, some third-party resellers open packaging and replace the original charger with a substitute charger to meet the domestic power requirements. Unfortunately, these accessories may not be genuine high-quality Plantronics products. Instead, the replacement accessory may be a low-cost and low-quality generic replacement. These poor quality replacement accessories may affect the operation of the products, including creating fit issues, and increasing charge times. In some instances, sellers of grey goods have been found to duct-tape accessories to the outside of the original boxes, risking product damage and creating a very unfavorable brand experience for the recipient. More problematic, generic replacement products may not meet electrical or hazardous-substance safety requirements.

Likewise, the packaging and instructions accompanying grey goods are often not appropriate for the jurisdiction. The jurisdiction-specific packaging may be in a different language, causing customer confusion and frustration.

Further, there may be operational or technical limitations depending on the jurisdiction. For example, there are different radio frequency regulations in different countries. Products designed for one jurisdiction may not meet the standards that are in place in another

jurisdiction, or may interfere with other devices.[17] Ignoring these restrictions can result in interference and incompatibility. Grey goods sellers are rarely concerned about the issues that arise due to selling devices into prohibited jurisdictions, or the issues that their buyers may encounter. Consumers may not be aware that the grey good products they are purchasing were not built or designed with their market in mind, much less the harm that such products may cause. Also, in some instances, a given product shipped to one jurisdiction includes a different set of features than the same product that is shipped to one or more other jurisdictions.

Also, grey goods products may be sold years after they were originally put on the market in the foreign jurisdiction. Timely sale of fresh goods is important to all quality manufacturers, including Plantronics. Old

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17. Wireless products for the U.S. market that employ Digital Enhanced Cordless Telecommunications (DECT) 6.0 (operating in the 1920-1930 MHz frequency band) are prohibited from use in Europe, as they cause and experience interference with European cellular networks. Similarly, wireless products employing European DECT (operating in the 1880–1900 MHz frequency band, with a greater transmission power ceiling) are prohibited in the U.S., as they cause and experience interference with U.S. cellular networks. Regional or continental sensitivities are likely to become only more aggravated by the ever-growing adoption of wireless technologies, such as ultrawide-band communications, and the differences in the operational constraints on such technologies that have been proposed by the relevant regulatory authorities. *See, e.g.*, Haim Mazar, An analysis of regulatory frameworks for wireless communications, societal concerns and risk: the case of Radio Frequency (RF) allocation and licensing (2008); Haim Mazar, *A comparison between European and North American wireless regulations*, Telecom World (ITU WT) (2011).

products may have out-of-date software or diminished product life. As one example, rechargeable batteries are adversely affected by extended periods of non-use, both in terms of overall service life and the length of time a device can operate on a full charge. A consumer receiving a grey good with diminished capabilities is going to blame the original manufacturer, not the dubious supply chain.

Plantronics sells high-quality premium products that it wants presented to customers in a premium manner. Plantronics relies on the customer's experience when opening the product to create a favorable initial impression. The so-called "unboxing" experience is a crucial part of the modern brand experience, even being featured in YouTube video reviews.

Plantronics has found that the packaging for grey goods is often improper or damaged. Further, grey goods are often opened and repackaged in an attempt to substitute jurisdictionally incompatible accessories with those that are compatible. The products may be repackaged (poorly) in a different box, with a different configuration. Not only does this decrease the quality of the product, but it decreases the quality of the customer experience—the "unboxing" experience is ruined for the consumer. Also, Plantronics makes a relatively intimate product—a headset is worn on the user's face, goes in the user's ears, and is near the user's mouth. Products that are not in their original, sealed packages are viewed with suspicion by recipients, since they may already have been worn by someone else. Further, Plantronics packages its products intended for business customers in plain packaging while packaging the same product intended for a consumer in a colorful and engaging package. A

consumer receiving a business package is going to have a different experience than if they had received a consumer package. This too harms the customer experience.

All of these issues lead to a poor customer experience and low customer satisfaction. This, in turn, harms Plantronics.

B. Grey goods result in poor customer service.

Grey goods also have the potential to significantly reduce the customer's continuing experiences with the product. For example, grey goods make it difficult for Plantronics to perform recalls on its products. Infrequently, Plantronics may issue a recall or deal with a quality issue. Its method for handling these kinds of issues is to reach out to its authorized channel and then replace the product or take other steps to address the product issue. With grey goods, Plantronics is unaware that the transaction even occurred, which frustrates its ability to support the buyers of such products.

Further, Plantronics' authorized sellers provide a variety of follow-up services, including training, education, support, and warranty services. Because they did not make the grey goods sale, they may not provide the follow-up services customers of grey goods want or expect. Customers are likely to have a poor customer service experience if warranty claims are denied because the product is a grey good or otherwise damaged or stale due to the manner it was provided by the unauthorized seller.

If, on the other hand, a grey goods customer seeks relief from the unauthorized (grey good) reseller, it may

have issues communicating due to language or time zone differences, and is unlikely to receive the level of support provided through authorized channels, if any support is provided at all. Thus, the service experience will be poor. And even if consumer can obtain a refund from the unauthorized seller, it is likely there will be extra steps and inconvenience required to obtain the refund or proper product. This, too, will cause the customer to have a negative experience.

Thus, while a customer may, in the first instance, be able to obtain a lower price point for a grey good, in the long run it is unlikely the customer will have the customer service experience intended by the manufacturer.

C. Grey goods harm business partnerships.

Plantronics and its partners make specific investments in marketing and customer support based on geographic market. Plantronics' partners would not be motivated to invest in marketing or support of goods if the first authorized foreign sale exhausted U.S. patent rights.

Plantronics relies on a network of authorized distributors and resellers to sell and service its products. These authorized partners invest time and money into training sales and support staff and conducting marketing and promotional activities in order to promote and sell Plantronics products. Grey goods sellers exploit the marketing and services offered by the authorized sellers without themselves having made any investment into the brand or its visibility.

Providing customer support for grey goods puts undue stress on Plantronics' authorized partners. When the buyer of a grey good experiences a problem, that buyer may seek help from one of Plantronics' partners, placing a burden on the authorized seller for a product that they did not sell. Even more, when the problem is due to regional packaging, accessories, or operational constraints, that partner is often ill-equipped to remedy the customer issue. Consequently, the purchase of an unauthorized grey good by a single consumer can deprive an authorized seller of both a sale and their time. Grey goods thus create a warranty and service burden on authorized sellers that did not make the original sale.

Authorized sellers in the United States, particularly those with brick-and-mortar stores, may not be able to match the prices offered for grey goods and remain profitable. Either they are unable to make the sale or they must compete on price for a sale that is not profitable. This, in turn, can make them unwilling to invest in Plantronics' products and services, and unwilling to provide marketing and product visibility. Plantronics' authorized distributors and resellers are thus less willing to conduct business with Plantronics when they are forced to compete with grey goods.

In addition, the authorized sellers may see advertised prices for grey goods and then demand price matching. Even the offer for sale of a small quantity of grey goods online can do immense damage to Plantronics' large orders placed by its authorized sellers, when those sellers demand lower prices in order to allow them to compete with a *de minimis* grey goods offer.

II. There are legitimate and important reasons to allow innovators to price products differently depending on the jurisdiction.

A patent holder often has legitimate reasons for pricing its products differently based on geography. Innovators may want to offer pricing adjustments to local partners to offset local costs. Some jurisdictions may rely primarily on sales through brick-and-mortar stores, which are expensive and require pricing considerations. Innovators may spend different amounts on marketing depending on the area, and thus need those costs to be made up in the sale price of the product. And certain jurisdictions may not be in a position to support the same pricing as other jurisdictions. There is a certain level of pricing that makes sense for the innovator to operate in each country to ensure a reasonable return on the investment in research and development required to create new and innovative products.

III. Exhaustion of U.S. patent rights based upon a sale in a foreign market denies innovators the protections guaranteed by U.S. patent law.

A. The status quo is that an authorized foreign sale does not exhaust U.S. patent rights.

Under governing law, foreign sales do not exhaust domestic patent rights. *See Boesch* v. *Graff*, 133 U.S. 697, 703 (1890); *Fuji Photo Film Co.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1371, 1376-77 (Fed. Cir. 2005); *Jazz Photo Corp.* v. *Int'l Trade Comm'n*, 264 F.3d 1094, 1098, 1105 (Fed. Cir. 2001). Thus, the status quo is that unauthorized importation of a grey good is an infringement.

B. International exhaustion would render the territorial nature of patents meaningless.

The status quo is consistent with the territorial scope of patents. *See Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972) (confirming that the patent system "makes no claim to extraterritorial effect"), *abrogated in part by* 35 U.S.C. § 271(f) (2006); *Rotec Indus., Inc.* v. *Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000) (*quoting Dowagiac Mfg. Co.* v. *Minn. Moweline Plow Co.*, 235 U.S. 641, 650 (1915)) (noting "[t]he right conferred by a patent under our law is confined to the United States and its Territories" and that infringement of U.S. patents "cannot be predicated of acts wholly done in a foreign country").

A sale anywhere in the world that is authorized by the patentee and that exhausts the patentee's U.S. rights renders the territorial scope of all patents, U.S. or foreign, meaningless. An example may be illuminating. Assume *arguendo* that a patentee has a U.S. patent and an Australian patent for the same invention. An Australian company approaches the patentee seeking the right to make and sell products covered by the patent in Australia. Should the patentee license the Australian patent to the Australian company, the authorized sale of the patented product by the Australian company would exhaust the U.S. patent rights under the change in law proposed by Petitioner. A third-party reseller, upon purchasing the product from the Australian company, could import the product into the U.S. without fear of infringing the patentee's U.S. patent. The Australian company may have no interest in the U.S. market, but the patentee would have to price the royalty payable under the license to account

for the fact that the Australian company's products might ultimately be imported into the United States by a third party. In such a case it may not make economic sense for the Australian company to take a license, depriving the Australian market of the product and the patentee of a just reward for its foreign patent right.

Furthermore, assume that the patentee does not have a patent for the invention in Argentina. In order to compete in Argentina with local companies that are using the patented technology without paying royalties under a patent, the patentee may reduce its prices within the Argentinian market. However, a sale by the U.S. patentee of its product in a jurisdiction in which there is no exercise of patent rights will exhaust the U.S. patent rights under the change in law proposed by Petitioner. This will again dissuade the U.S. patentee from participating in foreign markets. Such a result is illogical.

International exhaustion would also be bad for consumers of products in foreign jurisdictions. It would require patent holders such as Plantronics to either restrict sales to higher-income markets or offer goods at a globally uniform price, to the detriment of consumers in lower-income countries. If all sales, worldwide, were to include the rights of Plantronics' U.S. patents, then the prices of such sales would need to be adjusted to reflect this reality. As a result, prices in various foreign jurisdictions would be increased, not based on the respective local markets, but instead based on a change in the law in the U.S. This is unfortunate for foreign consumers of Plantronics' products, who should not have to pay for the value of U.S. patent rights, and may be catastrophic in other contexts (such as pharmaceuticals). Many foreign markets would be unable to bear such an increase.

C. International exhaustion is improper because the patentee has not reaped the benefit of its U.S. patent rights.

International exhaustion should not be permitted because the patentee has not reaped the benefit of its U.S. patent when it has sold a product into a foreign market. *See United States* v. *Masonite Corp.*, 316 U.S. 265, 278 (1942) (noting that patent exhaustion depends on "whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."). "[T]he market award, under the statute, is explicitly the reward available from American markets subject to American laws, a reward obtained by selling or authorizing sales in those markets." *Lexmark Int'l, Inc.* v. *Impression Products, Inc.*, 816 F.3d 721, 761 (Fed. Cir. 2016) (en banc). International exhaustion would deny innovators such as Plantronics the benefit of the full value of their U.S. patents.

D. International exhaustion would weaken U.S. patent rights and discourage innovation.

A primary purpose of the patent laws is to promote innovation. *See* U.S. Const., Art. I, §8, cl. 8 ("To promote the Progress of Science and useful Arts"). A strong patent system encourages innovation and encourages companies to invest in research and development. *See* Jonathan Barnett, Patent Tigers: The New Geography of Global Innovation at Abstract (2016) (draft), *available at* https://tinyurl.com/j67p2xs (explaining that "patents can promote entry into technology markets by economies that are rich in intellectual and human capital but have small domestic markets in which to extract returns on that capital").

Plantronics invests a significant amount of money into its research and development, its brand, its support and service, and its partnerships with its authorized distributors and resellers in reliance on strong patent rights. This investment should be protected and encouraged. Allowing innovators like Plantronics to use its U.S. patents to protect against grey goods will encourage it to continue to invest in research and development and to pursue U.S. patents. International exhaustion would discourage innovation.

IV. The policy of presumed international exhaustion is impractical and has the same effect as conclusive international exhaustion of denying innovators the rewards that should flow from U.S. patent protection.

Practically speaking, there is little difference between Petitioner's argument that an authorized foreign sale *always* exhausts the patentee's rights in the sold article (Petitioner Br. at 44-58), and the United States' "intermediate" approach, under which a patentee's express reservation of U.S. patent rights at the time of a foreign sale will be given effect, "but those rights will be deemed exhausted if an authorized foreign sale occurs and no express reservation of U.S. patent rights is made." (United States Br. at 22.) Setting aside whether there is compelling legal authority for presumptive exhaustion, the lack of guidance on when and how to make an effective reservation under this policy is itself unduly prejudicial. The Federal Circuit in its en banc decision acknowledged the uncertainty of such a system. *Lexmark*, 816 F.3d at 772.

Even assuming an express reservation could be made, it is unduly burdensome to impose on finished goods manufacturers such as Plantronics the obligation of making such a reservation as to each of tens of thousands of sales annually into over 80 different foreign jurisdictions, and maintaining notice of this reservation through to receipt of the product by the intended end-user. There is, for example, a significant difference between reserving U.S. patent rights in connection with the foreign sales of Plantronics' finished goods and the Respondent's single use cartridges. The latter situation involves a fungible, disposable, and easily identifiable component with a microchip disabling further use after the toner is depleted. These circumstances allow the Respondent to include a conditional sales contract and single-use license as part of the authorized distribution of the cartridges. However, Plantronics' products are diverse combinations of multiple components that are sold in finished form and capable of multiple sales and resale following the initial authorized sale into a foreign jurisdiction. It is much more difficult to track, monitor and expressly preserve any patent rights on these products. Maintaining reservations with 80+ countries' laws (in Plantronics' experience) is expensive and impractical for an American company operating globally. There is no compelling legal or practical support for the proposed presumptive-exhaustion approach.

CONCLUSION

For the foregoing reasons, the Court should affirm the judgment of the court of appeals.

Respectfully submitted,

FRANÇOIS DEVILLIERS
JEREMY DESROSIER
PLANTRONICS, INC.
345 Encinal Street
Santa Cruz, CA 95060
(831) 426-5858

DAVID BOHRER
MERCHANT & GOULD LLP
55 S. Market, Suite 1500
San Jose, CA 95113
(408) 938-3883

RACHEL C. HUGHEY
Counsel of Record
MERCHANT & GOULD PC
3200 IDS Center
80 South Eighth Street
Minneapolis, MN 55402
(612) 336-4688
rhughey@merchantgould.com

Counsel for Amicus Curiae Plantronics, Inc.

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v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF AMICUS CURIAE PUBLIC CITIZEN, INC., IN SUPPORT OF PETITIONER

SCOTT L. NELSON
Counsel of Record
ALLISON M. ZIEVE
PUBLIC CITIZEN LITIGATION GROUP
1600 20th Street NW
Washington, DC 20009
(202) 588-1000
snelson@citizen.org
Attorneys for Amicus Curiae

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INTEREST OF AMICUS CURIAE[1]

Founded in 1971, amicus curiae Public Citizen, Inc., is a nonprofit consumer advocacy organization with members and supporters nationwide. Public Citizen appears before Congress, administrative agencies, and courts on a wide range of issues, including access to affordable medicines for consumers both domestically and globally. Through its Access to Medicines program, Public Citizen works with partners worldwide to improve health outcomes and save lives by advancing policies to lower pharmaceutical prices. Public Citizen has provided technical assistance concerning patent rules and access to medicines to dozens of governments as well as to international organizations. Public Citizen is particularly concerned with increasing access to medicines in countries where incomes are lower than in the United States and other highly developed countries.

Public Citizen submits this brief to address assertions made below that the rule of international patent exhaustion advocated by petitioner Impression Products, Inc., would impair access to affordable medicines in low- and middle-income countries. Those arguments were advanced in the court of appeals by the Pharmaceutical Research and Manufacturers of America (PhRMA) in an amicus curiae brief supporting Lexmark, Inc., and advocating that the Federal Circuit adhere to its decision in *Jazz Photo Corp. v. ITC*, 264 F.3d 1094 (Fed. Cir. 2001), notwithstanding this Court's intervening decision in

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[1] This brief was not authored in whole or part by counsel for a party. No one other than amicus curiae made a monetary contribution to preparation or submission of this brief. Written consents to its filing from counsel for both parties are on file with the Clerk.

Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351 (2012).[2]

Public Citizen does not believe that patent-law doctrines that affect all forms of technology should be driven by concerns specific to a particular industry. Nor does Public Citizen believe that limiting exhaustion of patent rights to domestic sales is an appropriate or effective way to protect the critically important interest in access to affordable medications in other countries. Indeed, domestic exhaustion requirements, particularly if they were to be adopted worldwide, are likely to hinder that goal. Public Citizen submits this brief to explain that, to whatever extent the Court may view access-to-medicines issues as relevant to its decision in this case, PhRMA's policy arguments on the subject do not reflect the views of advocates for global access to medicines.

INTRODUCTION AND SUMMARY OF ARGUMENT

The brief of petitioner Impression Products, Inc., and those filed by other amici curiae on its behalf explain how the Federal Circuit's precedents allowing the use of patent law to enforce conditions on the sale of patented products and limiting the principle of patent exhaustion to first sales of patented products in the United States run counter to decades of this Court's patent-law precedents, to the common-law principles animating them, and to sound public policy. This brief will not repeat those arguments. Instead, this brief addresses a specific argument made by representatives of the pharmaceutical industry in support of the Federal Circuit's holding that

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[2] *See* Br. of Amicus Curiae Pharma. Research & Mfrs. of Am., *Lexmark Int'l, Inc. v. Impression Prods, Inc.*, Nos. 14-1617 & 14-1619 (Fed. Cir. filed Aug. 19. 2015) ("PhRMA App. Br.").

foreign sales authorized by U.S. patent holders do not exhaust U.S. patent rights. That argument is that a rule of international exhaustion would harm access to medicines in lower-income countries by allowing parallel importation to the United States of patented drugs sold at lower prices, and sometimes donated free of charge, in those markets. Such importation, the industry argues, would diminish the incentive for pharmaceutical companies to offer drugs at reduced prices in other countries and ultimately drive prices up, denying life-saving medicines to patients in the developing world. The argument is both misdirected and misguided.

The argument is misdirected because concerns specific to a single industry should not drive the development of patent-law principles that govern rights of patent-holders across all industries: Manufacturers of printer cartridges need not be given property rights to prevent distortion of markets for medicine. Concerns specific to parallel importation of pharmaceuticals are best addressed—and already addressed—by legislation specific to that subject.

The argument is misguided because it wrongly suggests that access to medicine is an interest best protected by pharmaceutical monopolists. In fact, pricing by pharmaceutical patent-holders has been an obstacle to affordable access to medicine in lower- and middle-income countries. Indeed, despite regulatory policies in the United States and other higher-income countries that effectively prevent parallel importation of drugs sold at lower prices in lower-income countries, millions of lives were lost to HIV/AIDS in such countries because of the resistance of the pharmaceutical industry to providing life-saving medicines at affordable prices until public policies and the pressure of world opinion led to price re-

ductions. Parallel importation was one means successfully used to help lower prices in those markets.

Thus, although mass-scale, commercial parallel importation to the United States of medicines sold at low prices in lower-income countries could, if permitted, have negative consequences, not all parallel importation of pharmaceuticals would have such effects. Indeed, parallel importation is a critical tool that developing countries have used to combat excessive prices charged by drug companies with patent monopolies, and to save many lives. Targeted regulatory and trade policies, not broad grants of rights to patent-holders, present the best options for facilitating access to medicines worldwide.

ARGUMENT

I. General patent-law rules should not be based on policy concerns specific to the pharmaceutical industry and already addressed by legislation regulating that industry.

The products at issue in this case are computer printer-ink cartridges, but the issues posed by the case are not limited to those products. The impact of the Court's holding will be felt across a wide range of industries whose products use patented technologies. Any product subject to a U.S. patent that is sold abroad with the patentee's authorization and then brought into this country, whether for resale or for use by the original purchaser, will be affected by the Court's ruling.

Because the patent-law principles the Court must address—and in particular the issue of international patent exhaustion—are not specific to any one industry, technology, or set of products, policy concerns limited to the impact of a ruling on any single market seem poorly suited to drive the Court's decision. Effects limited to one set of manufacturers, or the consumers of their products,

would not ordinarily justify extending monopoly rights of *all* patent holders beyond the first authorized sale abroad.

The price of medicines in developing countries is an extraordinarily serious issue—literally a matter of life and death. Patent-law principles of general effect, however, are particularly blunt instruments, at best, for attempts to achieve policy aims specific to drug pricing in lower- and middle-income countries.

PhRMA has argued, for example, that large-scale reimportation of medicines marketed abroad at reduced prices (whether for humanitarian reasons or based on the operation of market forces in foreign countries) would increase prices and reduce availability of drugs in those countries (either by reducing companies' willingness to engage in below-market pricing or by increasing demand and thus raising market prices). PhRMA App. Br. 24–28. Even if that is the case, legislation and trade policies directed specifically at drug reimportation are a far more calibrated policy response than the blunderbuss approach of granting all patent-holders the right to sell products abroad without exhausting patent rights.

Indeed, laws specifically addressing and limiting parallel imports of medicines already exist. In particular, 21 U.S.C. § 381(d)(1), enacted in 1988, generally bars anyone other than the manufacturer from reimporting drugs manufactured in this country and sold abroad. That legislation effectively prevents large-scale parallel importation of drugs originating in the United States and thus renders the impacts predicted by PhRMA unlikely.[3]

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[3] Section 381(d)(1) does not address importation by overseas purchasers of drugs manufactured *abroad* by U.S. patent-holders. However, even under the rule that an authorized purchase of such

(*Footnote continued*)

In the court of appeals, PhRMA argued that this existing prohibition on reimportation is inadequate to meet its professed policy concerns because it is "addressed to safety rather than patent concerns." PhRMA App. Br. 28. But although the law's motivation may have been safety concerns (specifically, concerns about the potency and possible adulteration of reimported drugs), its prohibition is not limited to circumstances in which reimported drugs are unsafe. Whatever its original intent, its effect is, at a minimum, to limit significantly the possibility that parallel imports to the United States will affect prices in overseas markets.[4]

PhRMA also argued below that 21 U.S.C. § 381(d)(1) "does not supplant or alter patent rights" and thus does not "take away" patentees' rights to sue for patent damages for reimportation. PhRMA App. Br. 28. That argument begs the question in a case where the issue is whether such patent rights exist. PhRMA has offered a policy argument for holding that patent rights are not exhausted by foreign sales, and the existence of alternate statutory means for achieving those policies is an answer

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drugs abroad exhausts the patentee's U.S. patent rights, large-scale commercial importation of those drugs without the cooperation of the manufacturer would face great legal obstacles because, to be sold in the United States, the drugs would have to be packaged and labeled in conformity with FDA requirements, and the importer would have to demonstrate compliance by the manufacturer with all requirements applicable to the production of drugs for sale in the United States. *See* 21 U.S.C. § 381(a).

[4] *See* Kevin Outterson, *Pharmaceutical Arbitrage: Balancing Access and Innovation in International Prescription Drug Markets*, 5 Yale J. Health Pol'y L. & Ethics 193, 213–14 (2005) ("The law was ostensibly intended to address safety concerns for the U.S. pharmaceutical supply chain, but its effect is to prevent international pharmaceutical arbitrage or parallel trade.").

to that argument. Thus, our position is not that "patentees should be forced to rely on the FDA to protect their private rights" by enforcing 21 U.S.C. § 381(d)(1). PhRMA App. Br. 28. It is that patentees' "private rights" are exhausted by first sales abroad, and that legislation and policies specifically aimed at trade in medicines are a more tailored means of responding to policy concerns about drug reimportation than expanding the "private rights" of all patentees by holding that those rights are not exhausted by foreign sales.

Moreover, limiting patent exhaustion to domestic sales would strike a very different balance with respect to parallel drug imports than the one Congress chose in enacting § 381(d). Section 381(d)(2), for example, allows reimportation by persons other than manufacturers if the Secretary of Health and Human Services authorizes such reimportation because "the drug is required for emergency medical care." Section 381(d)(1) also has an exception for reimportation permitted under 21 U.S.C. § 384, a provision adopted in 2003 to authorize the Secretary to promulgate regulations permitting importation of drugs from Canada by persons other than manufacturers, although no such regulations have yet been promulgated.[5] A rule limiting patent exhaustion to domestic first sales would potentially prevent importation of patented drugs that could otherwise be authorized by the Secretary under these authorities.

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[5] Notably, to prevent any possible diversion of medicines donated for humanitarian reasons, § 384 prohibits the Secretary from allowing imports of "a prescription drug that is donated or otherwise supplied at no charge by the manufacturer of the drug to a charitable or humanitarian organization (including the United Nations and affiliates) or to a government of a foreign country." 21 U.S.C. § 384(i).

Whether existing laws and their regulatory implementation strike the correct balance with respect to parallel importation is subject to debate. But for purposes of this case, the relevant points are twofold: First, issues concerning the effects of drug importation policies on access to medicines domestically and internationally are best addressed in laws and regulations specifically applicable to drugs rather than in generally applicable patent-law principles. Second, existing laws make it very unlikely that recognizing that authorized sales abroad exhaust U.S. patent rights would lead to a volume of parallel importation from low-income countries that would affect drug markets and access to medicine in those countries.

II. Blanket bans on international exhaustion and parallel importation of pharmaceuticals would worsen problems of access to medicine in developing countries and likely cost lives.

The contention that the principle of international exhaustion of patent rights, and the resulting potential for parallel importation of patented drugs, is necessarily harmful to access to medicines in low-income countries is, in any event, overly simplistic and inaccurate. The argument rests on the premise that, if parallel importation is prohibited, pharmaceutical patent-holders will set an appropriate, affordable price for their products in each country, which would be disrupted if consumers in wealthier nations were able to compete with consumers in lower-income countries for lower-priced drugs available there.

That premise is at odds with reality. Drug prices certainly vary greatly from country to country, but not necessarily in ways that correspond to relative levels of in-

come or economic development.[6] Pharmaceutical companies with patent protection for their products tend to limit supply and set prices in each market to maximize monopoly profits; it would be surprising if monopoly pricing tended to produce results optimal for promoting wide access to medicines at affordable prices.[7]

Rather, economic theory suggests that income inequality in poorer countries produces demand curves for medicine that enable "a monopolist [to] maximize its revenue by selling at a high price affordable to few people," and thus "it may be perfectly rational for a company to set very similar prices in rich and poor countries."[8] Empirical evidence bears out that prices for patented drugs in poorer countries are often not significantly lower than in wealthier countries, and they may be higher.[9] For example, before generic versions of antiretroviral drugs became available, antiretroviral drug prices "had little or no relationship to developing countries' per-capita incomes."[10]

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[6] *See* Keith Maskus, *Parallel Imports in Pharmaceuticals: Implications for Competition and Prices in Developing Countries*, World Intellectual Property Organization, at 28–31 (April 2001), http://193.5.93.81/export/sites/www/about-ip/en/studies/pdf/ssa_maskus_pi.pdf.

[7] *See* Outterson, *supra* note 4, at 227.

[8] Sean Flynn, *et al.*, *An Economic Justification for Open Access to Essential Medicine Patents in Developing Countries*, 37 J.L. Med. & Ethics 184, 190 (2009)

[9] *See id.* & nn. 41–42.

[10] Rebecca Hellerstein, *Do Pharmaceutical Firms Price Discriminate Across Rich and Poor Countries? Evidence from Antiretroviral Drug Prices* (Aug. 2004), http://s3.amazonaws.com/zanran_storage/www.ny.frb.org/ContentPages/152635400.pdf.

Far from advancing access to medicines in developing countries, the pricing practices of patent monopolists have been a significant obstacle to making drugs affordable to citizens of those countries, where life-saving medicines often are in limited supply at prices beyond the reach of much of the population.[11] Strategies for reducing drug prices in poor and middle-income countries have often met significant resistance from patent-holders.[12] Those strategies have included fostering generic competition, including through compulsory licensing; price controls; and public and political pressure on the pharmaceutical industry.[13] Of particular relevance here, some lower-income countries, including South Africa, have significantly lowered prices and expanded access to life-saving medicines, including HIV drugs, by adopting the principle of international patent exhaustion and encouraging parallel importation from other countries where prices are lower.[14]

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[11] Ellen t'Hoen, *TRIPS, Pharmaceutical Patents, and Access to Essential Medicines: A Long Way from Seattle to Doha*, 3 Chi. J. Int'l L. 27, 27 (2002).

[12] *See generally* Peter Yu, *The International Enclosure Movement*, 82 Ind. L.J. 827 (2007).

[13] *See generally* World Health Organization, *Managing Access to Medicines and Health Technologies, Chapter 3: Intellectual Property and Access to Medicines* (2012), http://apps.who.int/medicinedocs/documents/s19580en/s19580en.pdf; United Nations Development Program, *Using TRIPS Flexibilities to Improve Access to HIV Treatment*, http://www.undp.org/content/dam/undp/library/hivaids/Using%20TRIPS%20Flexibility%20to%20improve%20access%20to%20HIV%20treatment.pdf.

[14] *See* Sisule Musungu, *et al.*, *The Use of Flexibilities in TRIPS by Developing Countries: Can They Promote Access to Medicines?*, World Health Organization, Commission on Intellectual Property Rights, Innovation and Public Health, at 28–30 (Aug. 2005), http://

(*Footnote continued*)

Notably, even when lower-income countries such as South Africa have sought to use parallel importation to bring about lower prices for essential medicines, pharmaceutical companies have opposed it on the same grounds they invoked in this case: "'parallel importation of drugs would undermine the ability of pharmaceutical companies to charge different prices in different parts of the world,' and ... 'tiered pricing strategy allows wealthier countries to subsidize poorer ones, so the drug companies still get profits they need for research.'"[15] Actual experience suggests that, on the contrary, "[p]arallel importing can be an important tool enabling access to affordable medicines because there are substantial price differences for pharmaceutical products in different markets."[16]

The use of patent exhaustion and parallel importation to advance access to medicines in some developing countries suggests that the broad-brush assertion that rejection of international exhaustion is necessary to protect affordable access to medicines in the developing world is overstated. A more nuanced approach to the subject would recognize that the advantages and disadvantages of parallel importation depend on the circumstances.

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www.who.int/intellectualproperty/studies/TRIPSFLEXI.pdf; William Fisher *et al.*, *The South Africa AIDS Controversy: A Case Study in Patent Law and Policy* (Feb. 2005), https://cyber.harvard.edu/people/tfisher/South%20Africa.pdf.

[15] Fisher, *supra* note 14, at 6 (citation omitted).

[16] Musungu, *supra* note 14, at 30. *See also* Maskus, *supra* note 6, at 10 ("[I]t seems from available price evidence that prices are often higher ... in developing nations than would be expected under a simple price-discrimination equilibrium and, indeed, are at times higher than in the rich nations. Under such circumstances [parallel importation] can provide a welcome source of lower-cost drugs.").

Parallel importation between countries with comparable levels of income but significant disparities in drug prices may help equalize prices and help consumers in the higher-priced market to access medicine, without pricing large numbers of consumers in the exporting country out of the market, threatening public health, or depriving patent holders of returns sufficient to incentivize innovation.[17] The flat rejection of international exhaustion advocated by PhRMA and Lexmark would prevent such potentially beneficial transactions (assuming they were otherwise permissible under the regulatory and trade policies of the countries involved). As one economist has concluded, "[a] more sensible conclusion is that parallel trade could be beneficial among countries with similar demand structures."[18]

We recognize that, in circumstances where lower-income nations have succeeded in overcoming the resistance of patent-holders and bringing about the lower prices for patented medicines that are essential to facilitating broader public access in those countries, mass-scale commercial parallel importation to the United States from those countries could have negative consequences. As explained above, however, existing regulatory obstacles to parallel importation to this country are likely to prevent such consequences. Indeed, "rules prohibiting importation of preferentially-priced medicines are already in place in almost all of the developed countries."[19]

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[17] *See* Outterson, *supra* note 4, at 197; Keith Maskus, *et al.*, *The Price Impact of Parallel Imports in Pharmaceuticals: Evidence from the European Union*, 23 J. Health Econ. 1035 (2004).

[18] Maskus, *supra* note 6, at 20.

[19] Musungu, *supra* note 14, at 30.

Moreover, even if regulatory policies allowed such importation, adoption of the principle that only domestic sales exhaust patent rights would be an overly broad solution to the potential problem because it would prevent parallel imports even where adverse consequences were not likely.[20] A preferable solution would be selective regulatory or trade policies, where appropriate, "to exclude drugs first sold in least developed countries."[21]

In the end, pharmaceutical interests concerned with the protection of monopoly profits are unlikely and uncertain protectors of the interest in affordable global access to medicines. Although protection of affordable drug prices in the developing world is a matter of critical importance, the proper mechanism for achieving that end is not a principle of patent exhaustion that protects the ability of all patent-holders in all industries to maximize their monopoly rents in every country where they do business, but policies specifically addressing the complex issues of global access to medicines.

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[20] Moreover, to the extent lower prices in a lower-income country were attributable to generic competition or a compulsory licensing system, a rule of international exhaustion would not permit parallel importation of lower priced generics even in the absence of regulatory constraints. Sales of those products in the lower-income country would not exhaust the patent-holders' U.S. patent rights because they would not be sales authorized by the patent-holder. *See* Sarah Wasserman Rajec, *Free Trade in Patented Goods: International Exhaustion for Patents*, 29 Berkeley Tech. L.J. 317, 373 (2014).

[21] Rajec, *supra* note 20, at 373; *see also* Maskus, *supra* note 6, at 43 & Annex A (advocating prohibiting parallel trade in pharmaceuticals offered at below-market prices in low-income countries).

CONCLUSION

This Court should reverse the judgment of the court of appeals.

Respectfully submitted,

SCOTT L. NELSON
Counsel of Record
ALLISON M. ZIEVE
PUBLIC CITIZEN LITIGATION GROUP
1600 20th Street NW
Washington, DC 20009
(202) 588-1000
snelson@citizen.org
Attorneys for Amicus Curiae

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Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF PUBLIC KNOWLEDGE, THE ELECTRONIC FRONTIER FOUNDATION, AARP, AARP FOUNDATION, MOZILLA, AND THE R STREET INSTITUTE AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

DANIEL NAZER
KIT WALSH
ELECTRONIC FRONTIER FOUNDATION
815 Eddy Street
San Francisco, CA 94109
(415) 436-9333

Counsel for the Electronic Frontier Foundation

CHARLES DUAN
Counsel of Record
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
(202) 861-0020
cduan@publicknowledge.org

Counsel for amici curiae

(Additional counsel listed inside cover)

(Listing of counsel, continued)

DENELLE DIXON-THAYER
JISHNU MENON
ELVIN LEE
MOZILLA
331 East Evelyn Avenue
Mountain View, CA 94041
(650) 903-0800

Counsel for Mozilla

BARBARA JONES
AARP FOUNDATION
200 South Los Robles, Suite 400
Pasadena, CA 91101
(626) 585-2628

Counsel for AARP and AARP Foundation

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INTEREST OF *AMICI CURIAE*

Amici curiae[1] are organizations that advocate for balanced intellectual property law that preserves the rights of the public. The present case relates specifically to consumer rights in ownership of property, and each organization has a strong interest in the correct development of patent law in this area.

Public Knowledge is a non-profit organization dedicated to preserving the openness of the Internet and the public's access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. As part of this mission, Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new, emerging technologies.

The Electronic Frontier Foundation is a non-profit civil liberties organization that has worked for more than 25 years to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 33,000 dues-paying members have a strong interest in helping the courts and policy-makers strike the appropriate balance between intellectual property and the public interest.

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[1]Pursuant to Supreme Court Rule 37.3(a), all parties received appropriate notice of the filing of this brief. Petitioner consented to the filing of this brief; Respondent provided blanket consent. Pursuant to Rule 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity, other than *amici*, their members, or their counsel, made a monetary contribution to the preparation or submission of this brief.

AARP is a non-profit, nonpartisan organization dedicated to fulfilling the needs and representing the interests of people age fifty and older. Among other things, AARP advocates for access to affordable healthcare and for lowering costs without compromising quality. AARP's charitable affiliate, AARP Foundation, creates and advances effective solutions that help low-income individuals fifty and older secure the essentials. Given the high cost of prescription drugs in the United States, AARP supports policy that would allow the importation of safe prescription drugs from licensed pharmacies and wholesalers operating in Canada.

Mozilla is a software and technology company, dedicated to ensuring the Internet remains a global public resource available to all. As a wholly-owned subsidiary of a non-profit, Mozilla's work is guided by a set of principles that recognizes, among other things, the importance of interoperability, innovation, and decentralized participation to the Internet. Mozilla works with a worldwide community to create open source products like the web browser Firefox, used by an estimated half billion people worldwide. Mozilla also actively collaborates with other organizations around the world to develop core technology and interoperability standards that power the Internet and the World Wide Web.

The R Street Institute is a non-profit, non-partisan public-policy research organization. R Street's mission is to engage in policy research and educational outreach that promotes free markets, as well as limited yet effective government, including properly calibrated legal and regulatory frameworks that support Internet economic growth and individual liberty. R Street's particular focus on Internet law and policy is one of offering research

and analysis that show the advantages of a more market-oriented society and of more effective, more efficient laws and regulations that protect freedom of expression and privacy.

INTRODUCTION

The many briefs in this case expound upon the effects of the patent exhaustion doctrine on various companies and groups. But there is one constituency that correctly claims the mantle of being the true beneficiary of that doctrine: American consumers and buyers of goods.

Patent exhaustion provides that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008). By terminating "all patent rights" upon sale, the doctrine ensures that consumers may be secure in their expectations of the incidents of ownership, that they may use and alienate their possessions without fear of the dead hand of control of an upstream seller.

Property ownership is among the most cherished and jealously guarded tenets of American law, and exhaustion guarantees the continued vitality of ownership of physical property. Yet in the present case, the Court of Appeals affirmed two exceptions to the doctrine of patent exhaustion. Specifically, the court held that a "conditional sale" and a sale outside the United States would avoid application of the exhaustion doctrine.

These exceptions, both of the appellate court's own invention, fundamentally undermine those traditional consumer expectations of ownership. Adherence both to the long tradition of the common law and to the policies favoring ownership and alienability of property require that the Federal Circuit be reversed and a patent exhaustion doctrine free of qualifications be maintained.

1. The long pedigree of the exhaustion doctrine points to its focus on protecting consumer expectations in property ownership. Exhaustion springs from a tradition

of common law dating back to the 13th century, a tradition that disfavors restraints on alienation and other post-sale restraints attached to transfers of property. Disapproval of such restraints across those seven hundred years is expressed by noted commentators like Sir Edward Coke and Chancellor Kent and in leading English and American cases. Those commentators and cases consistently justify disapproval of post-sale restraints on the policy of protecting buyers, avoiding confusion in rights of property, and simplifying marketplace transactions in property.

Patent exhaustion effectuates that common law tradition and that consumer protection policy. Exhaustion ensures that a seller may not use patent law to impose the sorts of post-sale restraints that the common law prohibits, and it prevents federal patent law from stepping on the statutory domain of property law long reserved to the states. But by admitting exceptions to the exhaustion doctrine, the Federal Circuit allows patent law to overrun that statutory domain, sidestep the common law, and undermine the consumer protection interest in property ownership. Such a change to centuries of law and policy cannot be sustained.

2. The significance of the Federal Circuit's error is highlighted more brightly by present examples of vendors of products using legal devices such as exceptions to patent exhaustion to impose restraints on consumers' physical devices. Those restraints are serious impediments to consumer choice, free markets, competition, and individual liberty and autonomy.

The ordinary incidents of property ownership are critical to ensuring competitive markets and consumer rights. Secondary markets in goods permit efficient maxi-

mization of value, prevent price discrimination, and avoid waste by enabling reuse and recycling. Full ownership rights also include a right to repair, which opens up a valuable marketplace for repair services.

But ownership rights do not merely have economic value; they are essential to fundamental rights such as speech, autonomy, and privacy. Central to ownership are rights to understand, analyze, and innovate upon one's possessions. These rights take on special importance in an age where personal devices are increasingly complex and computer-driven, and yet whose inner workings are increasingly shielded from consumers' view. Reverse-engineering and tinkering are necessary to uncover flaws and vulnerabilities in complicated devices, to protect users of those devices from undesired behavior such as spying, and simply to make devices work with others.

These practical effects are unsurprising: Product sellers certainly have strong incentives to limit consumer choice and to manipulate markets in those sellers' favor. But law and policy are designed to favor the public—the interests of consumers—and not the whims of sellers. That sellers can and will undertake practices harmful to the consumer interest provides stronger reason for bolstering patent exhaustion, a doctrine designed to protect consumers and property owners.

3. Proponents of a weak patent exhaustion regime offer various reasons why that regime would be preferable, but upon inspection those reasons do not overcome the strong and longstanding interest in protecting consumers' ownership rights.

First, certain parties (notably the pharmaceutical industry) contend that weak exhaustion enables price discrimination that has desirable policy effects (such as

lower drug prices in developing nations). To the extent that these contentions are credible, those desirable policy effects ought to be brought about not by patent exhaustion but by the legislative process. General exhaustion law is the wrong tool for implementing specific goals like drug pricing schemes, and it wrongly puts the decisionmaking process on complex policy questions into the hands of private interests rather than public representatives.

Second, patent owners suggest that it is their right as intellectual property owners to subdivide and arrange their intellectual property rights however they desire. But that has never been the case in the common law: Even real property may not be subdivided into novel forms and estates. The reason, again, is to avoid the confusion and complexity for property buyers that would result from a proliferation of partial ownership rights.

Patent exhaustion is about consumer protection. It is about protection of property rights of the first order: not intangible intellectual property created by statute, but tangible, physical property recognized in Anglo-American law as far back as medieval times. It is that historic tradition that this Court will preserve, by affirming the continued strength of the exhaustion doctrine, by rejecting exceptions that circumvent that doctrine, and by reversing the Federal Circuit.

ARGUMENT

I. PATENT EXHAUSTION IS CONSUMER PROTECTION OF BASIC PROPERTY RIGHTS

A most basic consumer protection and a most fundamental incident of property ownership is the right to use and resell one's possessions. Exhaustion guarantees that once a patented article is authorizedly sold, "the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942). Thus, exhaustion effectuates ownership rights, ensuring that intellectual property law does not interfere with them.

A. CONSUMER PROTECTION UNDERLIES THE LONGSTANDING COMMON-LAW DISFAVORMENT OF RESTRAINTS ON OWNERSHIP

Unrestricted property ownership protects consumers. When a seller places conditions on property at the time of sale, all future buyers suffer both deprivation of the full bundle of traditional property rights and uncertainty as to what rights remain. In view of that policy of protecting consumers' expectations in property rights, the common law thus disfavors post-sale restraints on property.

Protection of the right to use and alienate property has been a cornerstone of Anglo-American law for centuries. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013). Consumer protection appears in the very title of what may be the earliest expression of the disfavoring of restraints on those rights, the 1290 statute *Quia Emptores*—"Because of the Buyers."[2]

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[2]Quia Emptores, 18 Edw. 1, ch. 1 (1290) (Eng.). Specifically, the statute permitted alienation by unconditional assignment, but pro-

The oft-quoted treatise of Sir Edward Coke (variantly styled Lord Coke[3]) explains that such restraints impinge on free commerce: that post-sale restraints are "against Trade and Traffique, and bargaining and contracting between man and man." 1 Edward Coke, *Institutes of the Lawes of England* § 360, at 223b (1628), *available at* URL *supra* p. v; *see also id.* § 334, at 205b ("Conditions [on alienated property] bee not favoured . . . .").

Chancellor Kent similarly wrote that "Conditions subsequent are not favoured in law," because such conditions may "infringe upon the essential enjoyment and independent rights of property, and tend manifestly to public inconvenience." 4 James Kent, *Commentaries on American Law* *129, 131 (4th ed. 1840), *available at* URL *supra* p. vii. Professor Gray more strongly contended that restraints on alienation "are inconsistent with that ready transfer of property which is essential to the well-being of a civilized community, and especially of a commercial republic." John Chipman Gray, *Restraints on the Alienation of Property* § 259, at 244 (2d ed. 1895), *available at* URL *supra* p. vi; *see* Richard E. Manning, *The Development of Restraints on Alienation Since Gray*, 48 Harv. L. Rev. 373, 403 & nn.127–28 (1935) (citing cases in accord). Ownership in fee simple, as these commentators recog-

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hibited "subinfeudation," the practice by which the property owner alienated land but demanded feudal duties from the purchaser. *See generally* Ronald B. Brown, *The Phenomenon of Substitution and the Statute Quia Emptores*, 46 St. Louis U. L.J. 699, 708–11 (2002).

[3]Biographies of Coke generally use the title "Sir," and there is reason to believe that to be the more correct form. *See, e.g.*, Cuthbert William Johnson, *The Life of Sir Edward Coke* (2d ed. 1845), *available at* URL *supra* p. vii. This is because "Lord" is a courtesy title for English judges, used only while the person holds office; Coke's *Institutes* were written after his official tenure.

nized, simplifies the transfer of property, to the benefit of consumers and buyers of that property.[4]

The need to protect buyers' ownership rights has sometimes been expressed in economic terms: A proliferation of conditions and restrictions on use or alienation imposes upon buyers an information asymmetry that complicates information-gathering and understanding of rights. *See, e.g.*, Molly Shaffer Van Houweling, *The New Servitudes*, 96 Geo. L.J. 885, 914–16 (2008). But while this terminology is modern, the principle is not.

The Court of Chancery in 1834 rejected the creation of novel limitations on property ownership, saying that "great detriment would arise and much confusion of rights," because "it would hardly be possible to know what rights the acquisition of any parcel conferred, or what obligations it imposed." *Keppell v. Bailey*, 39 Eng. Rep. 1042, 1049 (Ch. 1834). In accord was (then-Massachusetts) Justice Holmes, who refused to enforce a novel fee-tail-like conveyance that, if obeyed, would "put it out of the power of the owners to give a clear title for generations." *Johnson v. Whiton*, 34 N.E. 542, 542 (Mass. 1893); *see also* Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250, 1258 (1956) (enforcement of post-sale restraints might "involve such grave possibilities of annoyance, inconvenience, and useless expenditure of money").

While for real property the common law permits exceptions such as easements and covenants, for personal property the common law is far more strict. Recordation

[4]Certainly, the right to enjoy property is not unbounded; the government can limit property rights. But that is a power reserved to the state, not private sellers. *See* Gray, *supra*, at 11–12 n.1.

of post-sale conditions and the infrequency of transfers of land mean that the information costs of post-sale restraints on realty are somewhat minimized; by contrast, chattels are sold often and without recordation. *See* Van Houweling, *supra*, at 915.

Thus, while a conditional device like a servitude may attach to real property, such a device "will not run with or attach itself to a mere chattel." *John D. Park & Sons Co. v. Hartman*, 153 F. 24, 39 (6th Cir. 1907). Restraints on chattels "have been generally regarded as obnoxious to public policy." *W.H. Hill Co. v. Gray & Worcester*, 127 N.W. 803, 807 (Mich. 1910); *see also Dr. Miles Med. Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 404 (1911); *Garst v. Hall & Lyon Co.*, 61 N.E. 219, 219 (Mass. 1901); *Taddy & Co. v. Sterious & Co.*, [1904] 1 Ch. 354, 357–58 (U.K.); Gray, *supra*, § 27.[5]

Granted, modern law does provide a device for imposing conditions on personal property—the security interest—but that device further underscores the concern for protecting consumers' ownership expectations. The Uniform Commercial Code permits security interests to demand "performance of an obligation," U.C.C. § 1-201(b)(35), thereby resembling a post-sale restraint on use of personal property. But that code contains specific exceptions for consumers: A person who buys a good "primarily for personal, family, or household purposes" or a

[5] *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877, 907 (2007), overruled interpretations of *Dr. Miles* applying the earlier case to antitrust law. But *Dr. Miles* was a tortious interference case, not an antitrust case, and its recitations of property law and citations to Sir Edward Coke are still correct in that jurisprudential domain—indeed, *Leegin* conceded that property law "tended to evoke policy concerns extraneous to the question" of antitrust. 551 U.S. at 2714.

"buyer in ordinary course of business" will take the good free of any security interest in many cases. U.C.C. § 9-320(a)–(b). These exceptions only confirm the importance of protecting consumers from post-sale restraints.

The common law's disapproval of restraints on use or alienation of chattels is one with "an impeccable historic pedigree." *Kirtsaeng*, 133 S. Ct. at 1363. Any effort to undercut that disapproval, as the Federal Circuit sought to do here, must be met with close scrutiny from both the common law tradition and the consumer protection policies that underlie that tradition.

B. Patent Exhaustion, Properly Applied, Protects Personal Property Ownership

The doctrine of patent exhaustion is the natural extension of the common law rejection of post-sale restraints—indeed, unqualified exhaustion must exist to effectuate that common law principle and the consumer protection policy from which that principle springs.

This Court's case law developing the exhaustion doctrine has closely associated itself with the rationale of protecting consumers from future transactional uncertainty. *Bloomer v. McQuewan*, one of the earliest cases to adopt a version of patent exhaustion, specifically justified its holding based on the interest of the "numerous class of persons, who have purchased patented articles"—that is, protection of the interests of consumers. 55 U.S. (14 How.) 539, 552 (1852). *Keeler v. Standard Folding Bed Co.* more specifically approved of exhaustion of patent rights because "[t]he inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration." 157 U.S. 659, 667 (1895); *see also Motion Picture Patents Co. v. Universal*

Film Mfg. Co., 243 U.S. 502, 516 (1917) (citing to "the cost, inconvenience and annoyance to the public" of non-exhaustion).

Cases have also connected the exhaustion doctrine to the common law view on post-sale restraints. *Straus v. Victor Talking Machine Co.* refused to enforce a "License Notice" restricting the manner of use of patented machines after sale, on the grounds that those restrictions have "been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest." 243 U.S. 490, 501 (1917). And cases explicitly trace the highly analogous first sale doctrine of copyright both to its roots in Sir Edward Coke and the common law, and to the underlying interest in protecting consumers and free-market transactions. *See Kirtsaeng*, 133 S. Ct. at 1363; *Lifescan Scot., Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1376–77 (Fed. Cir. 2013) (citing *Kirtsaeng*'s common law analysis as applicable to patent exhaustion).

These cases suggest that patent exhaustion simply implements, for patented goods, the common law rules applicable to all personal property. *See* Samuel F. Ernst, *Why Patent Exhaustion Should Liberate Products (and Not Just People)*, 93 Denv. L. Rev. 899, 919–21 (2016); Ariel Katz et al., *The Interaction of Exhaustion and the General Law*, 102 Va. L. Rev. Online 8, 10–17 (2016). And this is unsurprising: Without the doctrine of exhaustion, patent law would create an avenue to impose post-sale restraints and chattel servitudes so long disfavored. There is no reason to think that patent law operates to discard over seven centuries of common law.[6]

[6]Patent law's preemptive effect has little bearing on the exhaustion doctrine—among other reasons, because patent law defers to state law on matters of ownership. *See* 35 U.S.C. § 261.

Two commentators offer an alternate theory: Rather than simply effectuating the common law, exhaustion removes patent law from the domain of property law, allowing common law and other state law to have primacy in defining property rights of ownership and transfer. *See* John F. Duffy & Richard Hynes, *Statutory Domain and the Commercial Law of Intellectual Property*, 102 Va. L. Rev. 1, 7 (2016). *But see* Katz et al., *supra*, at 10 (disputing this theory).[7] This view also supports the need for strong, unqualified exhaustion of patent rights, as the commentators observe, because allowing for circumventions of exhaustion would again allow patents to tread upon the carefully crafted path of property and ownership law. *See* Duffy & Hynes, *supra*, at 76–77.

In all cases, patent exhaustion serves to protect the consumer interest in the same way that the common law protects buyers of property. By mandating that patented goods be sold without future conditions that bind all successive owners, the exhaustion doctrine allows consumers to purchase goods confidently, without need to investigate chains of title or provenance of the goods. The doctrine consequently allows consumers to use, exploit, repair, and dispose of their goods without a cloud of uncertainty that those activities may unwittingly trigger infringement of a patent.

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[7]Duffy and Hynes contend that the common law did not drive the development of exhaustion doctrine, but this Court's explicit case law belies those commentators' assumption. *See, e.g.*, *Kirtsaeng*, 133 S. Ct. at 1363 (Congress presumed to have "intended to retain the substance of the common law") (quoting *Samantar v. Yousuf*, 560 U.S. 305, 320 n.13 (2010)); *Straus*, 243 U.S. at 501 (referencing Coke's views on restraints on alienation).

C. Reversal on Both Questions Presented Is Necessary to Protect Consumer Expectations

By admitting two wide exceptions to the doctrine of patent exhaustion, the Court of Appeals backpedaled on seven centuries of common law and the policy of protecting the ownership expectations of consumers and buyers of property. Reversal and rejection of both of these exceptions is necessary to restore consistency in the law and to correct policy for the public.

First, the Federal Circuit held that exhaustion may be circumvented by a "conditional sale," in which a product is sold with a condition, the violation of which gives rise to patent infringement. *See Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721, 735 (Fed. Cir. 2016) (en banc) (Pet. App. 26a); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992). The device of a conditional sale effectively allows for sellers to impose any sort of chattel servitude, restraint on alienation, or other restriction on enjoyment of the incidents of property ownership.

This conditional sale doctrine effectively abrogates the common law's disapproval of post-sale restraints. It also abrogates consumer expectations: A buyer or user of a good must inquire, first, whether that good is subject to any patent-enforceable conditions; second, whether anyone in the chain of title has violated any of those conditions; and third, what the buyer is allowed to do in view of those conditions. The conditional sale doctrine clouds the title of every single patented article sold.

Second, the Federal Circuit held that an authorized sale outside the United States of a patented article does not exhaust patent rights in the article. *See Lexmark*

Int'l, 816 F.3d at 754 (Pet. App. 64a); *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001). International non-exhaustion creates the same difficulties for consumers. One who purchases a product from a third party must again follow the chain of title for the product (and even components thereof, which may be separately patented), before the purchaser can be confident that the product was fully authorized for use in the United States.[8]

With these two exceptions to the patent exhaustion doctrine, scholars observe that "the Federal Circuit articulated a radical rewriting of not only patent exhaustion, but the nature of consumer property interests." Aaron Perzanowski & Jason Schultz, *The End of Ownership: Personal Property in the Digital Economy* (2016). These exceptions destroy the expectation that use and enjoyment of one's possessions will not be cut short by the dead hand of a former owner.

To justify this remarkable departure from precedent and the common law, the Federal Circuit relied heavily on the case *General Talking Pictures Corp. v. Western Electric Co.*, which held that when a patent licensee manufactures a patented product in violation of the terms of the license, then the products are unauthorized and thus infringing. *See* 304 U.S. 175, 181–82 (1938). The Federal Circuit reasoned that if conditions may be imposed on a licensee, then conditions may also be imposed on a pur-

[8]The government's position fares no better, because if international exhaustion is a default rule that may be overcome by express intention of the seller, then a purchaser of a patented good must still trace the full chain of title on a good to determine whether anyone in the chain sold the good abroad while expressing reservation of patent rights.

chaser. *See Lexmark Int'l*, 816 F.3d at 744–45 (Pet. App. 44–45a).

But reference to the common law and underlying consumer protection policy reveals the error in that analogy. Patent licenses are not ordinarily assignable to others, so concerns about information gathering, transactional efficiency, and consumer protection will affect the licensee but no one further. *See Troy Iron & Nail Factory v. Corning*, 55 U.S. (14 How.) 193, 216 (1853); *Cincom Sys., Inc. v. Novelis Corp.*, 581 F.3d 431, 436–37 (6th Cir. 2009). By contrast, where a physical object is sold, that object is alienable, so any conditions or restraints placed on the sale of the object will travel with the object, through potentially numerous consumers. The holding of *General Talking Pictures* is applicable only to licensees, and has no bearing on the exhaustion doctrine.[9]

Conditional sales and international non-exhaustion, as circumventions of patent exhaustion, contravene the common law's rejection of post-sale restraints on personal property and the public policy interest in protecting consumers' expectations of property rights. This Court once rejected the view that patent owners "could shield practically any patented item from exhaustion." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 630 (2008). That view must equally be rejected here.

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[9]Indeed, this Court acknowledged the inapplicability of the holding of *General Talking Pictures* to questions of exhaustion, on subsequent rehearing of that case. *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 127 (1938) ("We have consequently no occasion to consider what the rights of the parties would have been if the amplifier had been manufactured 'under the patent' and 'had passed into the hands of a purchaser in the ordinary channels of trade.'").

II. Manufacturers Currently Exploit Weak Exhaustion Rules to Harm Consumers

Patent exhaustion and the common law are not mere relics of history, but rather solve real problems of policy that are more important today than ever. Recent examples show that, absent checks like patent exhaustion, sellers of products have sought to expand their control over those products in all manner of anti-consumer ways. This Court should ensure that patent law does not provide a roadmap to legitimize such practices.

The anti-consumer practices that a weak exhaustion doctrine enables fall generally into two categories. First, sellers undercut important personal rights such as expression, autonomy, security, and privacy. Second, sellers seek to monopolize important markets such as the secondary resale market and the market for repair services.

A. Exhaustion Loopholes Enable Sellers to Cut Off Speech, Autonomy, and Privacy Rights

Product sellers seek to use intellectual property rights to restrict—often intentionally—the most basic consumer rights ranging from free speech to personal security. Exceptions to patent exhaustion facilitate these negative practices, and those exceptions should be removed.

Manufacturers and sellers like Lexmark here often require consumers to agree to contracts of adhesion such as "Terms of Use" or "End User License Agreements." These contracts represent a wish list of sellers, and indicate the varied ways that sellers seek to impose post-sale restraints on consumers.

Eliminating critical speech. Some of the most troubling demands in these contracts are terms prohibiting consumers from reviewing or otherwise speaking critically about the purchased product. The maker of the Nest thermostat, for example, does not allow purchasers to "release the results of any performance or functional evaluation of any of the Product Software to any third party without prior written approval."[10] Another company informed a customer that it would repair the customer's broken product only after the customer removed a negative review posted online, pointing to the product's terms of service as justification for the threat.[11]

Indeed, manufacturers' desire to control consumers' speech has been so prevalent and concerning that last December, Congress passed a bill prohibiting some of the most egregious cases of form contracts disallowing product reviews. *See* Consumer Review Freedom Act of 2016, Pub. L. No. 114-258. While that law alleviates a limited class of these situations, the fact remains that comprehensive doctrines like patent exhaustion must exist to protect not only consumers' ordinary ownership rights but also rights to speak freely.

Preventing research to protect privacy and security. Manufacturers also use terms of service to stop consumers from reverse-engineering or otherwise researching and investigating the workings of purchased products. Products like Apple watches, Cisco routers, and Fitbit fitness trackers all come with terms of service that prohibit reverse engineering.[12]

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[10] Amicus Curiae Br. Public Knowledge (Cert. Stage) 1a [hereinafter Pet. Amicus Br.].

[11] *See* Tim Cushing, *Software Company Shows How Not to Handle Negative Review*, Techdirt (Dec. 20, 2016), URL *supra* p. vi.

[12] *See* Pet. Amicus Br., *supra*, at 3a, 5a–6a.

Yet reverse engineering is essential for device owners and consumer protection watchdogs who want to determine whether devices are trustworthy. Reverse engineering has investigated important product safety and consumer rights issues, such as security of insulin pumps, unsolicited data collection by smart TVs, fabrication of car emissions test results, and life-threatening defects in car acceleration.[13] Without doctrines like patent exhaustion to prevent manufacturers from exerting post-sale control over reverse engineering, consumers' privacy and security may be put at risk for years without anyone being the wiser.

Restraining innovation. Innovation is an incremental process, with new ideas building upon existing products and knowledge. *See KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 427 (2007). Much of this innovation comes from consumers modifying or adapting their products in new and unexpected ways. *See, e.g.*, Eric von Hippel, *Democratizing Innovation* 19–31 (2005) (documenting evidence of consumer creativity); Brief of Public Knowledge et al., *Star Athletica v. Varsity Brands, Inc.*, No. 15-866 (U.S. Feb. 5, 2016), *available at* URL *supra* p. v.

But product manufacturers seek to stifle this very innovation through their terms of service. Some disallow the use of the purchased product in conjunction with non-approved software or hardware, such as third-party

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[13] *See* Tammy Leitner & Lisa Capitanini, *Medical Devices Vulnerable to Hack Attacks*, NBC Chi. (Sept. 29, 2014), URL *supra* p. vii; Javier E. David, *Shhh, Not in Front of the TV! Samsung May Be Eavesdropping on You*, CNBC (Feb. 8, 2015), URL *supra* p. vi; Karl Russell et al., *How Volkswagen Is Grappling with Its Diesel Deception*, N.Y. Times (Mar. 24, 2016), URL *supra* p. viii; Brian Ross et al., *Toyota to Pay $1.2B for Hiding Deadly "Unintended Acceleration"*, ABC News (Mar. 19, 2014), URL *supra* p. viii.

hardware competing with the seller's own peripherals, or privacy-protecting software.[14] Others disallow modifying software on the device, even in ways that infringe no intellectual property right, thereby preventing efforts to make the device accessible to people of differing capabilities or interoperable with other systems.[15]

Modifications to personal property serve important and even critical purposes for consumers. These include patching security vulnerabilities, blocking invasive collection of personal data, installing new software, or attaching new hardware (such as sensors, additional memory, or more durable components). These practices are lawful by virtue of exhaustion and related doctrines, such as copyright law's fair use and rights recognized by 17 U.S.C. § 117 (adaptation of computer programs) and § 1201(f)–(j) (exemptions to ban on circumvention).

While the word "consumers" ordinarily references natural persons, the consumers who rely on purchased products for innovation include technology startups, small businesses, and even large companies, all of whom often must purchase existing products in order to improve upon them. Developers of self-driving cars, for example, are primarily software companies who build their innovations on vehicles purchased as any other consumer would—terms of use and all.[16] Cloud computing ser-

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[14] *See* Cory Doctorow, *Windows 10 EULA: Microsoft Can Kill-switch Your Unauthorized Hardware and Pirate Games*, Boing Boing (Aug. 20, 2015), URL *supra* p. vi; *Protecting Your Privacy: App Ops, Privacy Guard, and XPrivacy*, xda-developers (June 11, 2014), URL *supra* p. viii.

[15] *See* Pet. Amicus Br., *supra*, at 5a, 6a.

[16] *See* Damon Lavrinc, *Exclusive: Google Expands Its Autonomous Fleet With Hybrid Lexus RX450h*, Wired (Apr. 16, 2012), URL *supra* p. vii.

vices, the infrastructure for today's information economy, depend on purchases of numerous discrete components, both hardware and software, subjecting the providers of those services potentially to a multitude of restrictions, conditions, and limitations that could act to prohibit such services *ab initio*.[17]

This Court previously recognized "the danger of allowing [] an end-run around exhaustion" to technology companies who assemble systems out of multiple components. *Quanta*, 553 U.S. at 630. That danger is no less applicable here.

Product manufacturers and sellers have strong profit motives to seek to impose these anti-consumer conditions on product buyers' lawful activities—indeed, one manufacturer implemented a system that would immediately disable a product until the owner agreed to *new* terms of service that the manufacturer desired.[18] Yet consumers still retain strong rights of autonomy, in no small part because the common law and the exhaustion doctrine strongly disfavor post-sale restraints on property.

It would be inconsistent with ideals of free speech and the intellectual property goals of promoting innovation, if sellers had the unbridled power to impose the sorts of controls described above. It would also be inconsistent with people's autonomy to audit and control their personal property to make it serve them rather than acting as a continuing agent for the seller after sale.

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[17] *See, e.g.*, Andrew Cunningham, *Life After Death for Apple's Xserve*, Ars Technica (Oct. 9, 2016), URL *supra* p. v (describing effect of hardware manufacturer's restrictive practices on cloud computing services).

[18] *See* Kit Walsh, *Nintendo Updates Take Wii U Hostage Until You "Agree" to New Legal Terms*, Electronic Frontier Found. (Oct. 13, 2014), URL *supra* p. ix.

Manufacturers may use contracts to bind consumers with whom they have privity, up to the ordinary limits of contract law—but no further, *see, e.g.*, *Phila. Indem. Ins. Co. v. Barerra*, 21 P.3d 395, 402 (Ariz. 2001) (unconscionability and reasonable expectation doctrines); *Perricone v. Perricone*, 972 A.2d 666, 682–83 (Conn. 2009) (public policy limits in contractual waiver of speech rights). In addition to the limitations on formation and enforcement of contracts, contractual obligations do not run with the property and do not bind successive owners. Contract law thus includes fail-safe mechanisms to avoid the competition and consumer harms presented by an unshakable post-sale condition tied to the physical article.

The law should not grant patent-owning sellers a vehicle for unilaterally overriding the rights of purchasers. The judgment of the Federal Circuit should be reversed.

B. Limitations on Resale and Repair Rights Lead to Monopolization Rather Than Competition

Patent exhaustion, like the common law, advances full ownership rights for consumers. Those ownership rights reduce information costs and simplify transactions, making such rights the wellspring of market competition. Absent the exhaustion doctrine, then, sellers of products may seek to undercut competition and monopolize markets to the detriment of consumers and the public.

1. The Federal Circuit's exceptions to patent exhaustion greatly weaken competition in secondary markets.

Secondary markets are a core component of the consumer economy. Companies like eBay and Craigslist give consumers access to highly efficient secondary markets for an unprecedented variety of goods. Other secondary

markets are supported by intermediaries ranging from specialized resellers and refurbishers, to general secondhand stores such as Goodwill.[19] One consultancy predicted the secondary market in smartphones alone to be worth $17 billion in 2016.[20]

Secondary markets offer numerous social and economic benefits to consumers, such as placing lower-cost used goods on the market, allowing purchasers to recoup some of their purchase cost at market rates, and protecting the environment by enabling reuse and recycling. *See* Chafee, *supra*, at 1261 (describing "policy in favor of mobility" long embraced by personal property law).

Manufacturers seek to control their products and profits by cutting off these secondary markets. Besides Lexmark's single-use restriction at issue in this case, companies regularly sell products with terms of service that do not allow the buyer to "transfer, assign, or sublicense its license rights to any other person or entity."[21]

The two exceptions to exhaustion allow manufacturers to circumvent the traditional rules against restraints on alienability, helping them gain this monopolistic and anti-consumer power. Since the most basic consumer products may be patented, exceptions to patent exhaustion will increasingly undercut secondary markets.[22]

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[19] *See* Kyle Wiens, *One Way to Create American Jobs: Fix Our 5 Million Tons of Out-of-Use Electronics*, The Atlantic (Oct. 31, 2012), URL *supra* p. ix.

[20] Paul Lee et al., Deloitte, *Technology, Media & Telecommunications Predictions 2016*, at 50 (2016), URL *supra* p. vii.

[21] Pet. Amicus Br., *supra*, at 4a; *see also* John Villasenor, *What the Restrictions on Resale of Google Glass Mean for Consumers*, Slate (Apr. 23, 2013), URL *supra* p. ix.

[22] Patents may cover even the most ordinary and old consumer products today. Products now often contain embedded software, en-

2. Exceptions to exhaustion also threaten competition within the repair market. This Court's precedents have long distinguished repair from reconstruction, making it clear that repair activities short of reconstruction fall outside the scope of the patent. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 342–43 (1961). The Federal Circuit's holdings on exhaustion jeopardize independent product refurbishers and repair services, insofar as multi-use prohibitions on re-use or repair could be brought home against such services by patent infringement actions.

A thriving independent repair market is beneficial. As anyone who has ever sought automotive repair services is well aware, consumers are better off with a wide array of competing providers of post-sale service and repair. One study suggested that consumers can cut their car repair bills by an average of about $300 a year, or 25%, by going independent.[23] The repair industry also supports local employment and helps reduce waste.[24]

The secondary sale and repair markets can have substantial impacts on a range of industries, including healthcare. In the case of the medical device reprocessing industry, for example, the Government Accountability Office

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tangling those products with the large number of software patents in force. *See* Dep't of Commerce Internet Policy Task Force, *Fostering the Advancement of the Internet of Things* 37 (2017), URL *supra* p. vi. Also, those products may be covered by a design patent, even one directed to just "a component of a multicomponent product." *Samsung Elecs. Co. v. Apple Inc.*, 137 S. Ct. 429, 435 (2016).

[23] *See* Jonathan Welsh, *Is the Dealer Better Than an Independent Mechanic?*, Wall St. J. (May 17, 2010), URL *supra* p. ix.

[24] *See* Jenna Wortham, *How to Fix Your iPhone (the Unofficial Edition)*, N.Y. Times, Apr. 14, 2010, at B9, *available at* URL *supra* p. x; Victor Luckerson, *We've Spent Almost $6 Billion on iPhone Repairs Since 2007*, Time (Sept. 20, 2012), URL *supra* p. vii.

reported that hospitals saved $200,000 to $1 million annually by using certain reprocessed medical equipment; another report estimated that hospitals produced between 5,000 and 15,000 fewer pounds of waste.[25]

3. Exceptions to patent exhaustion also encourage sellers themselves to engage in economically inefficient behavior in order to obtain future control over their products. For example, following the decision in *Quality King Distributors Inc., v. L'anza Research International Inc.* that copyright in a shampoo bottle label will not permit the shampoo vendor to block importation of the product into the United States, *see* 523 U.S. 135, 145 (1998), the vendor may seek design patents on the label to regain that power to block importation, foisting upon the public further patents sought simply for the purpose of frustrating competition. Sellers may also use exceptions to exhaustion to implement schemes of market segmentation and price discrimination.[26] That practice contravenes basic free-market economics to the point that it

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[25] *See* U.S. Gen. Accounting Office, *No. GAO/HEHS-00-123, Single-Use Medical Devices: Little Available Evidence of Harm from Reuse, but Oversight Warranted* 19 (2000), *available at* URL *supra* p. ix; U.S. Int'l Trade Comm'n, *Inv. No. 332-525, Remanufactured Goods: An Overview of the U.S. and Global Industries, Markets, and Trade* D–3 (2012), *available at* URL *supra* p. ix (statement of Association of Medical Device Reprocessors).

[26] For example, field-of-use restrictions, which the conditional sale doctrine enables, are used to prevent arbitrage and thus implement price discrimination among classes of consumers. *See* Mark R. Patterson, *Contractual Expansion of the Scope of Patent Infringement Through Field-of-Use Licensing*, 49 Wm. & Mary L. Rev. 157, 159–60 (2007). Certainly patents provide a limited power to price-discriminate, but that power is not unlimited; the grant of patent monopolies to inventors "was never designed for their exclusive profit or advantage." *Kendall v. Winsor*, 62 U.S. (21 How.) 322, 328 (1859).

has sometimes been deemed an antitrust violation. *See* Robinson-Patman Price Discrimination Act, 15 U.S.C. § 13 (2012); *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 219–20 (1993).

Patent exhaustion prevents product manufacturers from engaging in this extensive menu of inefficient, anti-consumer strategies. The Federal Circuit's exceptions to exhaustion enable and indeed encourage these very strategies. Those exceptions should be removed.

III. Purported Justifications for Weakening Exhaustion Are Overstated and Do Not Overcome These Consumer Harms

Patent owner Lexmark and several supportive *amici* have suggested that weakening the patent exhaustion doctrine is desirable as a matter of public policy. These contentions are unsupportable and in any event do not outweigh the strong and age-old policy favoring protection of consumers' personal property ownership rights.

A. Public Policy Matters Such as Drug Pricing Are for the Political Process, Not the Whims of Patent Owners

Several *amici* contended that exceptions to patent exhaustion will enable novel market pricing structures that are preferable as a matter of public policy. Most notably, the pharmaceutical industry contends that international non-exhaustion allows drug manufacturers to charge developed nations higher prices for drugs, thereby lowering prices in developing nations without fear of developed nations reimporting those cheaper medicines. But this and similar arguments do not justify a weakening of patent exhaustion, because the proffered policy benefits ought

to be implemented through the political process, not by the unilateral choice of patent owners.

At the outset, the oddity of this pharmaceutical argument must be noted. United States policy does not ordinarily prefer situations that cost the United States more money, and yet industry here is championing a practice that, by definition, costs American consumers more. Already for American consumers the cost of medicine is skyrocketing: one study estimates the retail cost of drug therapy for an average older American using 4.5 prescription drugs at $26,132 per year, an amount that exceeds the median Medicare beneficiary's annual income by almost $2000.[27] And the benevolence of this industry argument must be questioned: At least some evidence suggests that national drug price differentials do not actually make medicines accessible to the poor, but rather raise prices to extract as much profit as possible from the elites in each nation.[28]

But however desirable or not it may be to engage in this sort of price-differential scheme in the pharmaceutical or other market, patent law is not the way to achieve that result. Rather, it should be up to Congress to restrict importation of drugs. Congress undoubtedly has the power to do so and indeed already has legislated on reimportation of foreign-sold medicines.[29] The powerful

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[27] *See* Stephen W. Schondelmeyer & Leigh Purvis, AARP Pub. Policy Inst., *Trends in Retail Prices of Brand Name Prescription Drugs Widely Used by Older Americans, 2006 to 2015*, at 18 (2016), *available at* URL *supra* p. viii.

[28] *See* Sean Flynn et al., *An Economic Justification for Open Access to Essential Medicine Patents in Developing Countries*, 37 J.L. Med. & Ethics 184 (2009).

[29] *See* 21 U.S.C. § 381(d)(1); Michele L. Creech, Comment, *Make a Run for the Border: Why the United States Government Is Looking*

pharmaceutical lobby does not need this Court's help to obtain the policies it desires.

Rewriting general patent exhaustion law to achieve this highly specific goal is misguided for two reasons. First, it places a difficult public policy question not in the hands of elected representatives but rather in the control of self-interested patent owners. Drug pricing is a contentious topic today, with pharmaceutical manufacturers being heavily criticized for excessively high prices.[30] Using patent exhaustion to implement drug price differentials among nations gives those manufacturers sole control over the pricing scheme, where the better course would be to leave the matter to the legislature.

Second, the rule of patent exhaustion affects all industries, not just pharmaceutical manufacturers. Car manufacturers, consumer electronics makers, sellers of household items, and all sorts of other vendors of commodities would be enabled to engage in all of the anti-consumer behavior described in this brief that the exhaustion doctrine would otherwise prohibit. Twisting the exhaustion doctrine to serve just one or two idiosyncratic industries, then, would be to prescribe a narcotic where all that is needed is an ibuprofen.

Weakening exhaustion is not the proper way to achieve specific policy goals like enabling access to medicines. Instead, it is patent exhaustion that effectuates a most important policy goal, the protection of consumer property rights.

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to the International Market for Affordable Prescription Drugs, 15 Emory Int'l L. Rev. 593 (2001).

[30] *See, e.g.*, Sarah Jane Tribble & Sydney Lupkin, *High Prices for Orphan Drugs Strain Families and Insurers*, NPR (Jan. 17, 2017), URL *supra* p. viii.

B. Patent Owners Do Not Have the Right to Exploit and Subdivide Their Patent Rights However They Please

Lacking an actionable public policy reason for constricting exhaustion, Lexmark and supporting *amici* are left arguing that it is simply the prerogative of the patent owner to subdivide the intellectual property right in whatever way the owner pleases, and conditional sales and other exceptions to exhaustion are part of that subdividing. Indeed, this is the heart of Lexmark's prebate arrangement, which in the guise of offering "consumer choice" essentially is a company's effort to partition its patent rights in a novel and arbitrary way.

Yet the common law already addresses whether this arbitrary partitioning may be done. The answer is no.

Ownership of land and chattels, of course, is also a bundle of rights like patents, but the common law does not permit those bundles to be partitioned in any way desired. Professor Chafee notes the ancient principle that "forbade a grantor to create novel estates in land," Chafee, *supra*, at 1258, and innumerable cases support this notion that the list of fee estates and other property rights is limited and closed. *See, e.g.*, *Keppell*, 39 Eng. Rep. at 1049; *Whiton*, 34 N.E. at 542; Oliver Wendell Holmes, *The Common Law* 407 (1881) (noting "rule that new and unusual burdens cannot be imposed on land").

Property rights cannot be subdivided in novel ways for the same reason that post-sale restraints on property are disfavored: to protect consumers from "unacceptable information costs" resulting from unexpected and complex ownership structures. Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The* Numerus Clausus *Principle*, 110 Yale L.J. 1, 26

(2000). And how much more true is this when the property being subdivided is the more limited class of intellectual property rights, while the information costs imposed by that subdivision burden far more fundamental rights in personal, physical, tangible property. *See* Perzanowski & Schultz, *supra*, at 23–24.

Just two Terms ago, this Court rejected a patent owner's bid to relax a rule that restricted the patent owner's ability to engage in novel licensing arrangements under the patent. *See Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2415 (2015). The Court found the competing economic analyses inconclusive, and thus applied *stare decisis* to defer to Congress's "prerogative" to choose the policy "that will optimally serve the public interest." *Id.* at 2414. *Stare decisis* in the present case is sufficient to reverse the Federal Circuit and reaffirm the unbroken chain of this Court's decisions holding that exhaustion is an unqualified doctrine that admits no circumventions.

But the case for exhaustion is stronger, for the policy and economic analysis is conclusive: Seven hundred and twenty-seven years of law, from the *Quia Emptores* to now, hold as paramount the policy of protecting owners' rights to enjoy, use, and alienate personal property. No less than a sound rejection of patent owners' attempts to carve holes into the doctrine of patent exhaustion will uphold this consumer protection policy, a policy old as the hills and yet of pressing importance today.

CONCLUSION

For the foregoing reasons, the decision of the Court of Appeals should be reversed.

Respectfully submitted,

DANIEL NAZER
KIT WALSH
ELECTRONIC FRONTIER FOUNDATION
815 Eddy Street
San Francisco, CA 94109
(415) 436-9333

Counsel for the Electronic Frontier Foundation

DENELLE DIXON-THAYER
JISHNU MENON
ELVIN LEE
MOZILLA
331 East Evelyn Avenue
Mountain View, CA 94041
(650) 903-0800

Counsel for Mozilla

CHARLES DUAN
Counsel of Record
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
(202) 861-0020
cduan@publicknowledge.org

Counsel for amici curiae

BARBARA JONES
AARP FOUNDATION
200 South Los Robles, Suite 400
Pasadena, CA 91101
(626) 585-2628

Counsel for AARP and AARP Foundation

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IMPRESSION PRODUCTS, INC.,

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v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* QUALCOMM INCORPORATED IN SUPPORT OF RESPONDENT

DAVID J. KAPPOS
RICHARD J. STARK
CRAVATH, SWAINE & MOORE LLP
Worldwide Plaza
825 Eighth Ave.
New York, NY 10019
(212) 474-1000
dkappos@cravath.com

ROGER G. BROOKS
3804 W. Cornwallis Rd.
Durham, NC 27705
(212) 474-1072
rgbrooks@cravath.com

JEFFREY A. LAMKEN
Counsel of Record
LAUREN M. WEINSTEIN
EMILY K. DAMRAU
Admitted Only in Illinois
MOLOLAMKEN LLP
The Watergate, Suite 660
600 New Hampshire Ave., N.W.
Washington, D.C. 20037
(202) 556-2000
jlamken@mololamken.com

Counsel for Amicus Curiae

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D.C. 20002

QUESTIONS PRESENTED

Section 271(a) of the Patent Act provides that "whoever *without authority* makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. §271(a) (emphasis added). The questions presented are:

1. Whether the sale of a patented article subject to an express contractual agreement conveying only limited authority to use that article nonetheless automatically confers unlimited authority to sell, offer to sell, use, and import that article.

2. Whether every sale of a patented article outside the United States automatically confers unlimited authority to import, sell, offer to sell, and use that article in the United States.

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BRIEF OF *AMICUS CURIAE* QUALCOMM INCORPORATED IN SUPPORT OF RESPONDENT

INTEREST OF *AMICUS CURIAE*[1]

Qualcomm Incorporated ("Qualcomm") is the leading innovator in the cellular communications industry. Qualcomm technology is in every smartphone in the world. Qualcomm pioneered the use of the technology forming the basis of third-generation ("3G") cellular standards.

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[1] The parties have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* or its counsel made a monetary contribution to this brief's preparation or submission.

Then, nearly a decade before fourth-generation ("4G") cellular standards reached commercial development, Qualcomm pioneered the development of the "LTE" technology that forms the basis for 4G standards. As one observer recently explained:

> Most people think that they can watch *Game of Thrones* on their cell phone because Apple came out with a better phone. No, Apple gave you a larger screen and better display, but the reason [the video streams smoothly] is because Qualcomm and AT&T and others invested billions of dollars in making the wireless network and phones more efficient.

Thomas L. Friedman, *Thank You for Being Late* 80-81 (2016). Qualcomm continues to invest heavily in inventing and bringing to market new technologies that will deliver a 5G cellular standard capable of data speeds and efficiency far beyond current experience.

Qualcomm essentially acts as a research and development engine for the entire mobile industry. Qualcomm has more than 300 licensees, and its patent portfolio includes more than 100,000 patents and pending applications worldwide. Qualcomm currently commercializes its technology through two separate businesses: by licensing patents to cell phone manufacturers, and by selling chips.

All manufacturers of cell phones worldwide use and benefit from Qualcomm's patented inventions, and virtually all significant cell phone manufacturers worldwide have entered into royalty-bearing licenses to Qualcomm's patent portfolio, granting them rights to Qualcomm's extensive and diverse array of technologies.

A separate subsidiary of Qualcomm, Qualcomm Technologies, Inc. ("QTI"), designs and sells the complex chips that enable the communications functions in the cell

phone, along with an array of additional functionality. The market for these chips is intensely competitive. Major chip suppliers in addition to QTI include Mediatek, Huawei, Spreadtrum, Intel, and Samsung LSI.

Qualcomm does not require licensees to purchase their chips from QTI. Cell phone manufacturers are free to choose among a variety of chip-makers, allowing chip suppliers to compete against QTI on a level playing field.

Although Qualcomm does not sell any product or enter into any license on terms that impose "single use" restrictions comparable to those at issue in this case, Qualcomm operates in an industry in which intellectual property is immensely costly to develop and creates great value for users of that intellectual property. Huge investments have been made and complex licensing relationships developed in reliance on existing law, including the law governing patent exhaustion. Any effort to revise patent exhaustion law to limit the freedom of contract among sophisticated parties may needlessly disrupt those relationships, longstanding industry practices, and the ability of innovators like Qualcomm to recover a reasonable return on their investments—and to continue such investments in the future.

SUMMARY OF ARGUMENT

I. For nearly 150 years, this Court has recognized that patentees have flexibility to convey a portion of their exclusive right to "make, use, and sell" the patented article without exhausting their patent rights in the portion not conveyed. See *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544 (1873).

In the printer industry, this legal flexibility has enabled a range of pricing models and consumer choices. Lexmark offers ink cartridges with terms that authorize

reselling and refilling by third parties, and it offers the same ink cartridges at a lower cost accompanied by restricted use terms that prohibit resale or third-party refilling of the cartridges. Epson, a competitor, promotes printers that—while more expensive up front—use ink "tanks" that are fully refillable by the consumer, using ink purchased from Epson or competitors.

This diversity of business and pricing models with respect to printers and ink cartridges or ink is not a problem; it is a desirable form of competition. A similar diversity of choices in pricing structures is all the more important in other settings.

Neither petitioner nor any *amicus* identifies any substantial commercial problem or inequity in the market that counsels a change to the law. Instead, they invoke purely hypothetical "horribles." None of the harms that petitioner identifies have come to pass in the 150 years since this Court decided *Mitchell*.

II. Petitioner and its *amici* attempt to portray the rule they advocate as consistent with settled law. It is not. For 150 years, this Court has consistently held that sales of patented articles pursuant to post-sale use restrictions do not exhaust the patentee's rights with respect to unauthorized uses of those articles.

Petitioner asks this Court to upend long-settled law in aid of a party that undisputedly purchased and refilled ink cartridges *knowing* its activities were outside any right Lexmark ever granted to the original purchaser. The expansion of judicially created exhaustion law is wholly unwarranted.

III. Petitioner also seeks to upend exhaustion principles for foreign sales. This Court has long recognized that "[o]ur patent system makes no claim to extrater-

ritorial effect * * * and we correspondingly reject the claims of others to such control over our markets." *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972). Petitioner urges the Court to deem foreign sales exhaustive of U.S. patent rights. That rule would transfer control over U.S. patent policy, governing U.S. sales of articles covered by U.S. patents, to foreign governments.

ARGUMENT

I. This Case Does Not Call For Any Change To The Law Of Patent Exhaustion

A. Due to the Pragmatic Nature of Patent Law, It Should Be Changed Only When Necessary, and Then Only Incrementally and Cautiously

The undisputed facts of this case are telling. No one denies that "Lexmark offers buyers a choice. A buyer may purchase a 'Regular Cartridge' at full price" without any restrictions on the cartridge's resale or reuse; or buyers can "purchase a 'Return Program Cartridge' at a discount of roughly 20 percent, subject to a single-use/no-resale restriction." Pet. App. 10a. It is common ground that the lower price of "Return Program Cartridges" reflects the lesser value of the property and use rights conveyed with such cartridges. *Id.* at 11a. Most telling of all, no one disputes that petitioner's business is built on inducing purchasers who elected the single-use license, and the resulting lower price, to violate their agreements. *Id.* at 9a-10a. Petitioner buys empty ink cartridges fully aware that the original purchaser obtained the cartridges under an agreement that licensed only a single use, and prohibited the cartridges' resale or refilling. *Id.* at 14a.

Petitioner now asks this Court to alter decades of settled exhaustion precedent to endorse that business model—and to preclude Lexmark from offering cus-

tomers the choice of restricted-right cartridges. But "[c]ourts must be cautious before adopting changes that disrupt the settled expectations of the inventing community." *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002). Patent law is pragmatic in that it promotes "risk" and "often enormous costs in terms of time, research, and development," in exchange for the possibility that inventors will capture a profit if their efforts succeed. *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 480 (1974). Because ensuring a reward in exchange for that assumption of risk is essential to the goals of patent law, any changes in law that would upset the availability of that reward must be made cautiously and incrementally. As this Court emphasized nearly 150 years ago, "[t]he vast pecuniary results involved in such cases, as well as the public interest, admonish [courts] to proceed with care, and to decide in each case no more than what is directly in issue." *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 455 (1873).

The commercial investments, relationships, and expectations at risk from any changes to patent law have multiplied exponentially over the last century. A far greater proportion of this nation's wealth consists of intellectual property and is dependent on an extensive and diverse network of licensing relationships and rights. See Ocean Tomo, LLC, *Annual Study of Intangible Asset Market Value from Ocean Tomo, LLC* (Mar. 4, 2015), http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/ (the "implied intangible asset value of the S&P 500," which includes IP, "grew to an average of 84% by January 1, 2015," and was expected to grow to 87% by the end of 2015); Marshall Phelps & David Kline, *Burning the Ships, Intellectual Property and the Transformation of Microsoft* 137 (2009) ("IP and

other intangible assets today account for upwards of 80 percent of the market capitalization of all public companies in the world."). Patent licensing helps to pay for, and provides widespread access to, the inventions that are now the lifeblood of high-technology industries that generate revenues in the trillions of dollars. The cellular industry generated $3.3 trillion in global revenues in 2014.[2] Annually, industry invests billions of dollars in cellular research and development to make this all possible. Qualcomm alone invested approximately $5.5 billion in research and development in fiscal year 2015. Much of the revenue funding those investments comes from patent licensing.

Petitioner and its *amici* advocate a major change to the law of exhaustion—a change that threatens to deprive inventors of the reward for their investments and efforts. *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), has been the law for 25 years, and, as explained in Section II below, it traces its roots back to cases decided nearly 150 years ago. Exhaustion law is an area for cautious, incremental, fact-driven evolution, not for sweeping pronouncements that are likely to have unintended—and negative—consequences.

B. No Crisis in Commerce Requires a Change in the Exhaustion Doctrine

To justify their demand for a sweeping change in the exhaustion doctrine, petitioner and its *amici* conjure a parade of horribles that will supposedly result if *Mallinckrodt* remains the law. Petitioner asserts that car

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[2] The Boston Consulting Group, *The Mobile Revolution: How Mobile Technologies Drive a Trillion Dollar Impact* (Jan. 15, 2015), *available at* https://www.bcgperspectives.com/content/articles/telecommunications_technology_business_transformation_mobile_revolution.

manufacturers may "prevent[] used cars from being resold," while other manufacturers could forbid repairs and "eviscerate the repair market." Pet. Br. 42. One *amicus* asserts that *Mallinckrodt* could lead to a consumer being "liable for patent infringement" for "having a garage sale," Ass'n of Medical Device Reprocessors Br. 17, while another warns that *Mallinckrodt* "would permit a patentee to sell its pharmaceuticals 'only to be swallowed whole,' or a radio 'only for use on Sundays,'" Intellectual Property Profs. Br. 20-21.

These alarms are not merely speculative; they are counterfactual. *Mallinckrodt* has been the law for 25 years—while *Mitchell* v. *Hawley*, 83 U.S. (16 Wall.) 544 (1873), and *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 546 (1938), have been the law for 150 and 75 years, respectively—yet those problems have not materialized. Consumers are *not* being sued for having garage sales, or for using radios on Thursdays. Car sellers are *not* using patent rights to prohibit second-hand sales or third-party repairs. Consumers are *not* being ambushed by patent assertions from manufacturers or licensors upstream in the chain of commerce—the only parties against whom any exhaustion doctrine might provide any "protection."[3] Petitioner and its *amici* give *no single* real-world example of such an occurrence.

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[3] *Amici* posit that the *Mallinckrodt* rule would allow a patentee to bring suit against a video game reseller. Intel Br. 27. While some *copyright* holders have sued unauthorized resellers of software, *e.g.*, *Vernor* v. *Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010), *amici* point to no case where a video game company has asserted *patents* against unauthorized resellers or downstream purchasers. As this Court has noted, there are "wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes." *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 346 (1908).

Market forces and simple common sense—not the exhaustion doctrine—prohibit patentees from taking the types of drastic steps that petitioner and *amici* fear. As petitioner admits, a car manufacturer *could* impose onerous restrictions if it wished—even if *Mallinckrodt* were overturned—by "decid[ing] only to lease, and not sell, articles embodying its patent." Pet. Br. 43. Yet they do not do so. There is simply no crisis in the real world weighing in favor of a change in the exhaustion doctrine.

C. The Current Rule Facilitates Efficient Allocation of Intellectual Property Rights by Flexible Free-Market Negotiation

The U.S. legal system broadly favors freedom of contract and private ordering of rights. "[T]he freedom of the individual right to contract when not unduly or improperly exercised [is] the most efficient means for the prevention of monopoly." *NYNEX Corp.* v. *Discon, Inc.*, 525 U.S. 128, 137 (1998) (citing *Standard Oil Co. of N.J.* v. *United States*, 221 U.S. 1, 62 (1911)). This Court has expressly recognized that patentees are free to convey by contract either "the whole or a portion of the franchise which the patent secures, depending upon the nature of the conveyance." *Mitchell*, 83 U.S. (16 Wall.) at 548. The value of granting patentees flexibility to allocate by contract only a "portion of the [patent] franchise" is on display in the facts of the present case.

1. *The* Mallinckrodt *Rule Enables Competition Between Different Business and Pricing Models*

Flexibility in the current patent exhaustion doctrine has allowed parties across diverse industries to devise alternative pricing models that meet the needs of various customers.

In some industries, companies have long offered what is commonly called a "razor-blade" pricing model. Under that model, manufacturers sell capital equipment (in this case, the printer) relatively cheaply. The manufacturer (or the patentee) is able to do that because it later sells associated supplies (in this case, ink cartridges) at a relatively greater markup. The results in the consumer printer industry are readily observable: A few minutes on Amazon confirms that low-end printers can be purchased for almost trivial amounts,[4] while even fairly high-performance "home office"-grade laser printers are remarkably inexpensive.[5]

Ink cartridges for these printers are relatively expensive, but there is nothing inherently wrong with that trade-off. On the contrary, the "razor-blade" pricing model benefits low-volume users (*e.g.*, students and individual consumers) who want quality printing but will rarely need new ink cartridges.[6] A lower up-front cost for a printer coupled with higher ink cartridge costs may also be a desirable trade-off for a small business for which high up-front costs are a problem. For such purchasers, the "razor-blade" pricing model meets a need that would otherwise have to be addressed by obtaining a loan or accruing a balance on a credit card.

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[4] See, *e.g.*, *Canon MG6821 Wireless All-In-One Printer*, Amazon, https://www.amazon.com/Canon-MG6821-Wireless-Printer-Scanner/dp/B013C0ZBG2 (last visited Feb. 22, 2017) ($78.20).

[5] See, *e.g.*, *HP Laserjet Pro M452nw Wireless Color Printer*, Amazon, https://www.amazon.com/HP-Laserjet-Wireless-Printer-CF388A/dp/B01AUHADDG (last visited Feb. 22, 2017) ($207).

[6] See Ward S. Bowman, Jr., *Tying Arrangements and the Leverage Problem*, 67 Yale L.J. 19, 23-24 (1957) ("tying" of durable and consumable products can provide economic efficiency by using the consumable product "as a counting device," so consumers with higher demand pay more).

The "razor-blade" pricing model fills a particularly important need in the case of medical testing devices such as those at issue in *Mallinckrodt*. As with printers, the pricing model enables low-volume users to pay less than high-volume users. For example, the "razor-blade" model allows poorly funded rural hospitals to purchase cutting-edge medical equipment that might otherwise be unaffordable. The hospital purchases the equipment for a lower cost initially, and then purchases associated single-use supplies as needed to treat patients. That allows the hospital to pay less if it uses less and, at the same time, to delay payment until it provides services to patients and can receive reimbursement from insurers.

A seller of patented equipment cannot offer the "razor-blade" pricing model unless it is confident it will be able to recoup forgone profits on sales of the lower priced initial product, such as a printer, through the sale of associated supplies, such as ink cartridges.[7] Petitioner's rule would threaten that confidence.

Variations of the "razor-blade" pricing model are possible. Lexmark, for example, seeks to recoup its costs and recover a profit either through more sales of "restricted," single-use ink cartridges at a lower price, or through fewer sales of "unrestricted" cartridges (since third-party refilling will reduce the total number of ink cartridges sold) at a higher price. As the parties here have stipulated, Pet. App. 11a, and as the Federal Circuit

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[7] See David Evans, *The Antitrust Economics of Free*, 7 Competition Pol'y Int'l 71, 74 (2011) ("If a razor manufacturer gives away the razor and makes up the losses on the blades, a competitor could sell the blades at a lower price since it does not need to absorb the losses on the razors. A razor manufacturer can make money from its free razor policy only if it can use patents, product design, or other devices to prevent consumers from buying from a competitor.").

explained in *Princo Corp.* v. *ITC*, 616 F.3d 1318 (Fed. Cir. 2010), the price is adjusted to reflect "the value of the 'use' rights conferred by the patentee," *id.* at 1328. A single-use ink cartridge is sold for less because the purchaser has only bargained and paid for the right to use the associated intellectual property once. An unrestricted cartridge costs more because the purchaser has paid for an unlimited, exhaustive license to the necessary patent rights. If the law is changed in a manner that makes single-use restrictions unenforceable, the initial price of refillable supplies will rise, depriving low-volume or cash-strapped users of a desirable alternative.

An alternative to the "razor-blade" model and its variations is "pay up front" pricing. Under that model, a manufacturer of a patented product prices the product to make a reasonable profit on the investments necessary to develop, manufacture, and market that equipment. Necessary supplies are priced at a level that provides a profit on those supplies. Epson, for example, promotes consumer printers with consumer-fillable ink "tanks" under this model.[8] The initial cost of a comparable printer is much higher, but this pricing model is likely advantageous to a different set of customers who can afford to purchase a higher-cost printer at the outset.

2. *The* Mallinckrodt *Rule Facilitates Competition in Quality and Reputation*

The flexibility provided by the current law has allowed parties across industries to compete on quality and reputation as well as price. In this case, the printer, cartridges, and ink are parts of a whole system designed to

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[8] See Wilson Rothman, *Review: Epson Kills the Printer Ink Cartridge*, Wall St. J. (Aug. 4, 2015), https://www.wsj.com/articles/review-epson-kills-the-printer-ink-cartridge-1438683871.

deliver one end product—quality printing. If a patentee is unable to ensure that all components of the system are of the desired quality, its reputation as to the whole system may suffer. As the Federal Circuit rightly observed, "a company in Lexmark's position could have a plausible legitimate interest in not having strangers modify its products and introduce them into the market with the quality of modifications (including ink refills) not subject to Lexmark's control: lower quality of remanufactured cartridges could harm Lexmark's reputation." Pet. App. 60a. If the printer jams or the ink smears, consumers are likely to curse the company whose nameplate is on the front of the printer, regardless of who supplied the cartridge.[9]

"Courts and legal commentators have long recognized that franchise tying contracts are an essential and important aspect of the franchise form of business organization because they reduce agency costs and prevent franchisees from freeriding—offering products of sub-standard quality insufficient to maintain the reputational value of the franchise product while benefitting from the quality control efforts of other actors in the franchise system." *Queen City Pizza, Inc.* v. *Domino's Pizza, Inc.*, 124 F.3d 430, 440-441 (3d Cir. 1997); see, *e.g.*, *Mozart Co.* v. *Mercedes-Benz of N. Am., Inc.*, 833 F.2d 1342, 1351 (9th Cir.

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[9] See Zechariah Chafee, Jr., *Equitable Servitudes on Chattels*, 41 Harv. L. Rev. 945, 947 (1928) ("Irregular and unauthorized departures from uniformity in any respect tear this pattern of thought and emotion which has been woven with so much trouble and cost, and tend to reduce the minds of the public to the confusion which preceded the marketing campaign. The same irrational causes which lead a consumer to select a given article may as easily divert him away from it to a competitor.").

1987) (similar).[10] These same considerations should not be forgotten in the context of exhaustion and restricted license grants.

Petitioner's proposed rule would inhibit dynamic competition based on the quality and performance of the whole printer-cartridge-ink system. Though petitioner claims to be advocating for "free competition," Pet. Br. 42, it is actually advocating for a rule that would *preclude* existing competition between business models and stifle innovation—contrary to the goals of patent law. Competition in "whole system performance" likely delivers valuable benefits to consumers in the case of printers, but competition to deliver the highest level of safety, reliability, and precision can be a matter of life or death in the case of medical devices and testing equipment. It should be encouraged, not hampered, by patent law.

3. *The* Mallinckrodt *Rule Encourages Private Contractual Ordering That Avoids Unnecessary Litigation*

The *Mallinckrodt* rule also avoids unnecessary uncertainty and litigation. Like the cases of this Court that preceded it, *Mallinckrodt* permits patentees to "contract as they choose." 976 F.2d at 703. That does not merely allow patentees to innovate and compete on pricing and business model; it also allows them to establish their relationships and rights with clarity. In Qualcomm's experience, sophisticated parties are able to reach clear agreements on what their licenses and sales cover and

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[10] See Alan J. Meese, *Antitrust Balancing in a (Near) Coasean World: The Case of Franchise Tying Contracts*, 95 Mich. L. Rev. 111, 117-119 (1996); Warren S. Grimes, *When Do Franchisors Have Market Power?*, 65 Antitrust L.J. 105, 145-147 (1996); Benjamin Klein & Lester F. Saft, *The Law and Economics of Franchise Tying Contracts*, 28 J.L. & Econ. 345, 346-348 (1985).

what they do not, avoiding uncertainty and unnecessary litigation.

Petitioner would displace that private, contractual ordering with a judicially created exhaustion rule. In petitioner's view, even the most carefully negotiated, voluntary agreements must be displaced by a one-size-fits-all "substantially embodies" standard: The authorized sale of an article would exhaust patent rights, without regard to what might have been agreed by contract, whenever the article "substantially embodies" the patent. Pet. Br. 14. But that standard cannot approach the clarity and certainty that industry needs and that carefully negotiated contracts provide. Determining whether a particular article "substantially embodies" one, dozens, or hundreds of myriad inter-related patented technologies will often require highly technical, case-specific inquiries—inquiries that parties may very reasonably wish to moot by careful contractual allocation of rights. See Christopher M. Holman, *Unpredictability in Patent Law and Its Effect on Pharmaceutical Innovation*, 76 Mo. L. Rev. 645, 666-667 (2011). Petitioner seeks to render parties helpless to define the scope of transferred rights in advance through voluntary, contractual agreements, replacing contractual certainty with a judicially developed and less certain "substantially embodies" standard instead.

D. Overruling *Mallinckrodt* Would Reward Dishonest Behavior Without Helping Consumers

Petitioner has built a business on knowingly inducing purchasers of Lexmark ink cartridges to resell them to petitioner for refilling, in direct violation of the terms under which the original purchasers bought those cartridges. This Court has always been careful not to stretch the exhaustion doctrine to protect such willful

misconduct. For example, in *General Talking Pictures*, the Court did not find exhaustion where the "sales made * * * to petitioner were outside the scope of its license and not under the patent," which "[b]oth parties knew * * * at the time of the transactions." 304 U.S. at 180. Likewise, in *Bowman* v. *Monsanto Co.*, the Court found that exhaustion was no defense to infringement where a farmer "devised and executed a novel way to harvest crops from [patented soybean seeds] without paying the usual premium." 133 S. Ct. 1761, 1764-1765 (2013). This Court should not reach a different result here.

The Federal Circuit has observed that, where only a limited or conditional license has been granted, "it is more reasonable to infer that a negotiated price reflects only the value of the 'use' rights conferred by the patentee." *Princo*, 616 F.3d at 1328. Here, there is no need for inference: The parties *stipulated* that the original purchaser, in electing to purchase a lower priced "Return Program Cartridge," paid a price that included *only* the value of the limited, single-use IP rights provided by "the express terms of the conditional sale contract and conditional single-use license." Pet. App. 11a. Petitioner's business model is intentionally built upon expropriating the value of a multi-use license for which Lexmark has *never* been paid. Equity thus does not favor petitioner.

Nor will granting petitioner immunity for such conduct benefit consumers. As discussed above, if an expanded exhaustion doctrine makes it impossible for Lexmark to enforce the use limitations associated with the "Return Program Cartridge" option, Lexmark will have no choice but to price its printers or its cartridges (or both) at significantly higher prices so that it recovers *all* of its costs and earns *all* of its profits at the time of

the initial sale of a toner cartridge. See pp. 9-12, *supra*. Forcing the elimination of the "Return Program Cartridge" pricing option will harm low-volume consumers and consumers without significant capital for upfront expenditures. It will benefit no one.

Even petitioner will at best see transient benefits from the rule it advocates. Petitioner's business model is to arbitrage the discount that Lexmark grants to customers who accept the license restrictions associated with "Return Program Cartridges" by persuading initial purchasers to violate those restrictions. If that program and its discounted pricing option vanishes, petitioner's free-riding business opportunity will vanish as well.

E. The Unsteady Policy Foundations of the Exhaustion Doctrine Cannot Justify the Doctrine's Further Expansion

As respondent explains in greater detail, the exhaustion doctrine is a judicially created exception to the general rule—embodied in the Patent Act itself—that patentees may subdivide and separately convey the sticks that make up their "bundle of patent rights." Resp. Br. 12-14. The judicially created exhaustion doctrine should not be expanded unnecessarily at the expense of statutory text, particularly given the doctrine's now uncertain policy underpinnings. While the doctrine itself has persisted, none of the shifting rationales offered for it has proven universally applicable or durably convincing.

Section 271(a) of the Patent Act declares that "whoever *without authority* makes, uses, offers to sell, or sells any patented invention * * * infringes the patent." 35 U.S.C. §271(a) (emphasis added). "[W]ithout authority" means "without consent or permission." Pet. App. 25a. When a patentee expressly and lawfully restricts the

scope of permissible uses at sale, uses that exceed the grant are made "without consent or permission."[11]

Similarly, 35 U.S.C. § 154(a)(1) provides that patentees have "the right to exclude others from making, using, offering for sale, *or* selling the invention throughout the United States." *Ibid.* (emphasis added). As respondent points out, the statutory text's disjunctive phrasing demonstrates that patentees have separate and distinct rights in their patents (*i.e.*, to make or use or sell them) and can choose to alienate all or a part of that bundle of rights. Resp. Br. 12.

In its ordinary application, the exhaustion doctrine is in no tension with the texts of § 271(a) or § 154(a)(1); it simply implements the unexceptionable presumption that an unconditional authorized sale of a product includes all the seller's (or authorizing licensor's) patent rights in the product. But extending the judicially created doctrine in a manner that would overrule the text and sense of these statutory provisions can be justified—if at all—only based on the most compelling of historical and theoretical reasons. No such compelling reasons exist.

1. *Modern Economic Theory Has Rejected the "Double-Charging" Rationale*

The original and oft-repeated policy justification for exhaustion has been a desire to preclude "double charging" by patentees. See, *e.g.*, *Bloomer* v. *Millinger*, 68

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[11] Petitioner asserts that the "focus of patent exhaustion is not whether the *buyer* has been expressly or impliedly authorized to * * * use a product in a certain way," but the *seller's* authority to make the sale. Pet. Br. 37. That turns statutory text on its head. Section 271(a) asks whether the person who "*uses*" the patented invention has "authority" to do so. 35 U.S.C. § 271(a) (emphasis added). It does not speak to or query the authority of the party that sold the product to the user.

U.S. (1 Wall.) 340, 350 (1864) (the patentee is "entitled to but one royalty for a patented machine"); *Bowman*, 133 S. Ct. at 1766 ("'[T]he purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward . . . by the sale of the article.'" (quoting *United States* v. *Univis Lens Co.*, 316 U.S. 241, 251 (1942)) (alteration in original)). The concern was that the patentee would capture the full monopoly profit at the first sale of a patented article but would continue to extract additional profits through subsequent royalty demands for different uses or against downstream purchasers.

Economic theory, however, teaches that "double charging" to expand a monopoly profit is impossible absent special circumstances, such as where the later demand for additional payment comes as a "surprise." "In the 1950s, this leverage theory of monopoly tying was largely discredited by Chicago School writers," who explained that "in any multi-stage distribution chain there is but a single monopoly profit to be earned." Herbert Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. Ann. Surv. Am. L. 487, 514-515 (2011). The initial purchaser or licensee will not be willing to pay as much for the patented article in the first instance if it anticipates further downstream charges or restrictions.

This Court has endorsed that view. In *Leegin Creative Leather Products, Inc.* v. *PSKS, Inc.*, 551 U.S. 877 (2007), the Court relied on precisely this reasoning to overturn the former *per se* prohibition on agreements between resellers to set resale prices. *Id.* at 889. So have lower courts. See, *e.g.*, *Port Dock & Stone Corp.* v. *Oldcastle Ne., Inc.*, 507 F.3d 117, 124 (2d Cir. 2007) ("[W]hen a monopolist has acquired its monopoly at one level of a

product market, its vertical expansion into another level of the same product market will ordinarily be for the purpose of increasing its efficiency, which is a prototypical valid business purpose."); *Town of Concord, Mass.* v. *Bos. Edison Co.*, 915 F.2d 17, 23 (1st Cir. 1990) ("As several members of the Supreme Court have pointed out, a 'widely accepted' (albeit 'counterintuitive') economic argument supports the conclusion of many commentators that 'there is but one maximum monopoly profit to be gained from the sale of an end-product.'" (citing *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 36 (1984) (O'Connor, J., concurring))). As a result, practices that were once deemed *per se* violations of the Sherman Act, such as vertical agreements restricting prices or allocating markets, are now reviewed under fact-specific rule-of-reason analysis instead. See *Leegin*, 551 U.S. at 898.

Fear of "double charging" as a justification for the exhaustion doctrine, then, is a mere fossil remnant of an economic theory that is now extinct in antitrust law.

2. *The* Univis Lens *Antitrust Rationale Is Equally Undermined by the Economic Implausibility of "Double Charging"*

The driving motive behind *United States* v. *Univis Lens*, 316 U.S. 241 (19), was closely related to the "double-rent" rationale. Univis was using patent license terms to impose pricing rules on sales of its lens blanks. *Id.* at 245. It licensed manufacturers to make and sell lens blanks, but imposed license terms to require the manufacturer-licensees to sell to other licensees at a fixed price. *Ibid.* Under then-existing law, vertical pricing restraints were seen as socially harmful and therefore proscribed as *per se* unlawful. In holding the restriction unenforceable, the Court was determined not

to let the patent grant provide a defense for that otherwise illegal conduct. *Id.* at 250-254.

However—perhaps because of the change in economic thinking about vertical pricing agreements described above—the antitrust/anti-price-fixing rationale for the exhaustion doctrine has not resurfaced since *Univis*. There is no reason for the *Univis* rationale to persist as an artifact unique to patent law. At the very least, petitioner provides no compelling reason for extending *Univis*'s fact-specific result to a new universe of contexts. Further, as the court below correctly observed, *Univis* "relied in part on strongly restrictive patent-misuse decisions that were repudiated by Congress after *Univis* was decided," in the 1952 Patent Act and 1988 amendment of the Patent Act. See Pet. App. 55a n.11.

3. *The Goal of "Avoiding Consumer Annoyance" Has No Real-World Foundation*

Petitioner argues that, unless this Court overrules *Mallinckrodt* and announces an absolute exhaustion doctrine, "businesses—and even consumers—[will be forced] to expend resources discerning whether their use is permitted by the terms of sale." Pet. Br. 43. Similarly, the United States invokes not facts, but *Keeler* v. *Standard Folding-Bed Co.*, 157 U.S. 659 (1895), to assert that "'[t]he inconvenience and annoyance to the public' if patent rights are not exhausted by the first authorized sale [are] 'too obvious to require illustration.'" U.S. Br. 43 (quoting *Keeler*, 157 U.S. at 667).

However, as the Federal Circuit correctly recognized, "*Mallinckrodt* has been the governing case law since 1992 and has been reiterated in subsequent precedent * * * yet we have been given no reliable demonstration of widespread problems not being solved in the marketplace." Pet. App. 60a. In fact, such "annoyance to the

public" has never been illustrated by a single actual case in the 120 years since *Keeler* was decided.

That is not surprising. For direct purchasers who buy goods subject to clearly disclosed and perhaps expressly negotiated field-of-use restrictions—and for downstream purchasers such as petitioner who take with full notice of limits to the license grant—there is of course no need to "expend resources [to] discern[] whether their use is permitted."

As to hypothetical downstream repurchasers who purchase *without* notice of license limitations (a fact pattern not presented in this case), no party or *amicus* has identified a single instance of a manufacturer or licensor suing such a downstream good-faith purchaser for infringement. Whatever the reason, experience has proven that the threatened "inconvenience and annoyance" is not "too obvious to require illustration." To the contrary, it is too non-existent to permit illustration.

In fact, we all purchase innumerable products in complete ignorance of (and without "expending resources" to determine) what patents owned by third parties our "use" of the product may infringe, and no "inconvenience and annoyance" to us as consumers results. Simply put, the threat of "inconvenience and annoyance" if the law of exhaustion is not changed is a mere phantasm.

* * * * *

In short, none of the principal policy rationales that have been offered for the exhaustion doctrine have proved durable. By contrast, both the text of the patent statute and the general value of stability and respect for settled expectations in the pragmatic patent law have—and they counsel against changes to the exhaustion doctrine absent a demonstrated and compelling need. In

asking this Court to extend the exhaustion doctrine further, in the absence of both need and coherent policy rationale, petitioners threaten to cut the doctrine loose from any of its moorings and convert exhaustion into a "doctrine without a cause."

II. PETITIONER SEEKS A SWEEPING CHANGE TO EXISTING LAW

Petitioner and its *amici* assert that they are asking this Court only to reaffirm longstanding rules. In fact, they ask this Court to overturn more than a century of precedent. This Court has long recognized that, while *unrestricted* sales of patented articles exhaust a patentee's rights in the article sold, *restricted* sales do not. Petitioner asks this Court to sweep away that distinction and upend settled law.

A. Patent Exhaustion Always Has Been Limited to Unrestricted Sales

1. Nearly 150 years ago, this Court held that a patentee may sell or license patented articles "*with or without conditions.*" *Mitchell*, 83 U.S. (16 Wall.) at 547-548 (emphasis added). If a patentee sells the article "without any conditions, or authorize[s] another to construct, sell, and deliver it, or to construct and use and operate it, without any conditions," the patentee exhausts its rights. *Id.* at 547. "[W]here the sale is absolute, and without any conditions * * * the purchaser may continue to use the implement or machine purchased until it is worn out * * * in the same manner as if dealing with property of any other kind." *Id.* at 548.

Conversely, a "conveyance or license, subject to certain restrictions and limitations," confines the purchaser's rights and the scope of exhaustion. *Mitchell*, 83 U.S. (16 Wall.) at 548. In *Mitchell* itself, the patentee licensed a manufacturer to make, use, "and vend to others

the right to make and use" the patented felting machines, "but expressly stipulated in the instrument of conveyance" that the right "to use the said machines" would not extend "beyond the expiration of the original term" of the patent, even if the patent term were extended for an additional seven years. *Id.* at 548-549. The defendants in that case, who had purchased the machines, argued that "they [were] by law authorized to continue to use the * * * machines" after the original term expired "as they had the right to do * * * when the purchase was made." *Id.* at 549-550. This Court rejected the defendants' argument: Because the license "expressly stipulate[d] that [the manufacturer] shall not in any way or form dispose of, sell, or grant any license to use the said machines beyond the expiration of that term of the patent," the manufacturer "was not empowered to give a license which should extend beyond that limitation" and could not "give [its] purchasers the right to use the [machines] * * * beyond the term of the original patent." *Id.* at 550.

Courts and commentators alike rapidly understood *Mitchell* to mean precisely what it says: A patented article *only* "passes out of the exclusive right which is secured by the patent" when "a specimen of [the] patented invention is sold * * * *without any restriction* on the ownership or use of the thing conveyed." Albert H. Walker, *Text-Book of the Patent Laws of the United States of America*, ch. XII § 301 (1883) (emphasis added); see William C. Robinson, *The Law of Patents for Useful Inventions*, ch. V § 813 (1890) ("[A] license may * * * curtail the rights of purchasers of the patented article from the licensee, by limiting his power to sell it except for use within a specified area or for a certain purpose."); *Chambers* v. *Smith*, 5 F. Cas. 426, 427 (C.C.E.D. Pa. 1870) (sale "qualified by an express restriction as to the

place in which it should be used" did not exhaust patent rights); *Aiken* v. *Manchester Printer Works*, 1 F. Cas. 245, 247 (C.C.D.N.H. 1865) (sales of patented implements "may be made by the patentee with or without conditions").

Petitioner and the United States attempt to distinguish *Mitchell*, claiming that it addresses only "conditional sales," which they define as sales in which "title" will transfer only after some later condition is met. Pet. Br. 33-35 (claiming that a sale "without any conditions" meant "a sale in which title had been transferred" without imposing conditions precedent); see U.S. Br. 16-17 (similar). "[I]f title has not yet transferred to the purchaser," petitioner asserts, "there is no completed sale that triggers exhaustion." Pet. Br. 33.

But that proposed reading of *Mitchell* cannot be reconciled with what *Mitchell* actually says. The "condition" in *Mitchell* was not a condition on the sale and transfer of title. It was a limitation on the right to "use" that would be complied with (or violated) only years after the sale. See *Mitchell*, 83 U.S. (16 Wall.) at 549; Resp. Br. 31. This Court recognized that the licensee's customers were "purchasers"; they merely had not acquired "the right *to use* the [patented felting machines] * * * beyond the term of the original patent." *Id.* at 550 (emphasis added).

The same error infects petitioner's contention that the Court has, since *Mitchell*, "refused to enforce * * * post-sale restrictions on the purchaser's use of the article." Pet. Br. 26-27 (citing *Adams*, 84 U.S. (17 Wall.) at 453; *Keeler*, 157 U.S. at 659). In both cases petitioner invokes, the patentee restricted the licensee's authority to selling the patented product in a limited geographic area, but in neither case was any limitation imposed with respect to

where the licensed product might be *used*. *Adams*, 84 U.S. (17 Wall.) at 456; *Keeler*, 157 U.S. at 659. In both cases, the Court held that downstream purchasers (*i.e.*, the licensees' customers) were not bound by the geographic restrictions because the restrictions purported to bind only the licensee. *Adams*, 84 U.S. (17 Wall.) at 457; *Keeler*, 157 U.S. at 666. Neither case invoked exhaustion to permit a purchaser to use a product in a manner inconsistent with an express and categorical limitation on the scope of use authorized by the original seller or licensor.

2. This Court's decision in *General Talking Pictures* reaffirmed *Mitchell* in no uncertain terms. In that case, the patentee had licensed a company to "manufacture and sell the patented amplifiers for radio amateur reception, radio experimental reception, and home broadcast reception," but gave the licensee "no right to sell the amplifiers for use in theaters as a part of talking picture equipment." 304 U.S. at 180. The licensee nonetheless sold amplifiers to the defendant "to be used in the motion picture industry." *Ibid.* The defendant argued that the sale was exhaustive, and the exclusion of commercial motion-picture uses therefore ineffectual. "The owner of a patent cannot," he urged, "restrict the use made of a device manufactured under the patent after the device has passed into the hands of a purchaser in the ordinary channels of trade and full consideration paid therefor." *Ibid.*

This Court rejected that argument because "[t]he sales * * * were outside the scope of [the] license." *Gen. Talking Pictures*, 304 U.S. at 180-181. Citing *Mitchell*, this Court held that the licensee "could not convey to [the defendant] what both knew it was not authorized to sell."

Id. at 181-182 (citing *Mitchell*, 83 U.S. (16 Wall.) at 550).[12] It thus held the defendant "infringe[d] the patents embodied in the amplifiers when it leased them for use as talking picture equipment in theaters." *Id.* at 182.

The United States (Br. 20-21) can distinguish *General Talking Pictures* only by rewriting it. The United States claims that exhaustion was defeated in *General Talking Pictures* only because the licensee knew its sale was not permitted by its license and, as a result, did not qualify as an "*authorized* sale." *Id.* at 20. According to the United States, "*General Talking Pictures* does not suggest that, if the hypothetical licensee *obeyed* * * * [a] restriction in its sales contracts, a buyer (or subsequent repurchaser) who violated that restriction could be liable for patent infringement." *Id.* at 21. In other words, the United States argues that, so long as the licensee *believes* that a sale is for authorized purposes, then the buyer is at liberty to use the equipment for *any* purpose.

That argument does not merely lead to absurd results. It also defies the reasoning of *Mitchell* and *General Talking Pictures*. Under the United States' position, a buyer is subject to an action for patent infringement if, as in *General Talking Pictures*, it purchases from a licensee that knows the sale exceeds the scope of its license to sell. But if the buyer *deceives* the licensee into believing it will use the device consistent with a license restriction, for example, the sale is exhaustive and the buyer confronts no liability under the patent laws for continued and flagrant unauthorized use. The position is so illogical as to be self-refuting.

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[12] The Court referred to what the licensee and purchaser "knew," but only to show that the petitioner was not "'a purchaser in the ordinary channels of trade.'" *Gen. Talking Pictures*, 304 U.S. at 181.

Precedent refutes it in any event. *Mitchell* itself rejected any claim that the licensee's knowledge mattered (setting aside certain defenses not at issue here). Because a licensee cannot convey that which it does not own, a licensee with limited rights cannot convey greater rights to a buyer. "[N]o one can convey * * * any better title than he owns." *Mitchell*, 83 U.S. (16 Wall.) at 550; see *Gen. Talking Pictures*, 304 U.S. at 181. A licensee's mistaken belief that it is selling for an authorized use cannot make a later, unauthorized use "authorized" within the meaning of the Patent Act.

The United States' position is as unworkable as it is wrong. In the United States' view, a patentee that wants to protect its rights may impose "restrictions accompanying a sale [that] could be enforced through a breach-of-contract action." U.S. Br. 43. The United States presumably intends that each patentee require its licensee to enter into contracts with downstream purchasers to limit permissible uses and designate the patentee a third-party beneficiary with enforcement rights. That would shift enforceable limits from patent law to contract law. But the government nowhere explains what conceivable policy goal that achieves.

The predictable result, however, is the most wasteful litigation of all—"litigation about where to litigate." *Bowen* v. *Massachusetts*, 487 U.S. 879, 930 (1988) (Scalia, J., dissenting) ("Nothing is more wasteful than litigation about where to litigate."). Whether the case belongs in federal court (as an infringement action) or state court (as a contract claim) would, in the United States' view, turn on whether or not the licensee *knew* the sale exceeded the scope of its license. The United States nowhere identifies another area of law where the proper forum

depends on something so difficult to resolve as a seller's subjective state of mind.

B. *Quanta* Did Not Upend Longstanding Principles

Petitioner argues that *Quanta* "rejected the 'conditional sale' doctrine." Pet. Br. 23 (citing *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 623 (2008)). But *Quanta* applied and reaffirmed the principles that *Mitchell* and *General Talking Pictures* announced.

In *Quanta*, the patentee (LG) licensed Intel to sell products practicing LG's patents. 553 U.S. at 623. A separate agreement required Intel to notify its customers that LG had *not* licensed Intel to sell products for use in combination with non-Intel products. *Id.* at 623-624. This Court held that Intel's sales of patented devices exhausted LG's patent rights nonetheless. *Id.* at 636. The Court's holding, however, turned on the fact that "[n]othing *in the License Agreement restrict[ed]* Intel's right to sell its [products] to purchasers who intend to combine them with non-Intel parts." *Ibid.* (emphasis added). There was a notice requirement in a separate agreement, but no corresponding limitation on the actual grant of rights to Intel in the license agreement. See *id.* at 623-624, 626. Had LG crafted a license that actually restricted Intel's right to sell products for use with non-Intel products, that condition would have protected LG's patent rights.

If this Court in fact had meant to hold otherwise—despite relying on both *Mitchell* and *General Talking Pictures*—it would have said so. The Court's silence on these cases speaks loudly to the carefully bounded scope of its holding.

III. Foreign Sales Of Patented Articles Should Not Exhaust U.S. Patent Rights

A. Foreign Sales Do Not Implicate U.S. Patent Rights

Patent law is distinctly territorial. "Our patent system makes no claim to extraterritorial effect * * * and we correspondingly reject the claims of others to such control over our markets." *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972); Resp. Br. 41.[13]

Consequently, the right to use or sell articles outside this Nation is governed by foreign law. See Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, art. 4, cl. 1, *opened for signature* July 14, 1967, 21 U.S.T. 1538 ("Patents applied for in the various countries of the Union * * * shall be independent of patents obtained for the same invention in other countries.").[14] Thus, the return patentees earn on their foreign sales under foreign patents is a question of foreign law.

Conversely, however, it is U.S. patent law that governs the right to use or sell articles covered by U.S. patents in the U.S. See 35 U.S.C. §154; *Microsoft Corp.*

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[13] See *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183, 195 (1857) ("[T]he patent laws * * * do not, and were not intended to, operate beyond the limits of the United States," and "the use * * * outside of the jurisdiction of the United States is not an infringement of [a patentee's] rights."); James R. Farrand, *Territoriality and Inventions Under the Patent Laws: Overreaching Harms U.S. Economic and Technological Interests*, 88 J. Pat. & Trademark Off. Soc'y 761, 763 (2006) ("From the earliest days of U.S. patent law, the prohibition on infringement has been limited to infringing activities taking place *within the United States*.").

[14] See Graeme B. Dinwoodie, *et al.*, *International and Comparative Patent Law* §1.03 (2002) ("[T]he starting point for any study of international patent law [is that] patent laws operate territorially, and patent rights are thus national in scope.").

v. *AT&T Corp.*, 550 U.S. 437, 454-455 (2007). The scope of a patentee's return on U.S. sales of objects covered by U.S. patents is distinctly a matter of U.S. law. See *Keeler*, 157 U.S. at 665 ("[T]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws.").

This Court has carefully guarded those territorial boundaries. In *Boesch* v. *Graff*, for example, the Court held that the sale in Germany, under a German patent, of a product embodying an equivalent U.S. patent did not exhaust the U.S. patentee's rights. 133 U.S. 697, 703 (1890). Sales of patented products in the U.S., the Court explained, "cannot be controlled by foreign laws." *Ibid.* Petitioner contends that *Boesch* does not apply because, in that case, someone other than the U.S. patentee made the authorized sale abroad. Pet. Br. 51-53. But, as this Court has explained, *Boesch* turned on the fact that "neither the patentee nor any assignee had ever * * * given any license to use the patented article *in any part of the United States*." *Keeler*, 157 U.S. at 665 (emphasis added). The German sale may have exhausted rights under the German patent in Germany under German law, producing the full return Germany chose to provide. But the U.S. patentee was nonetheless entitled to receive a royalty for U.S. sales covered by U.S. patent law as a consequence of holding U.S. patents. The foreign sale did not give him that reward and did not exhaust his patent rights.

B. Petitioner's Approach Would Transfer Control Over U.S. Patents to Foreign Governments

Treating foreign sales as even presumptively exhaustive of U.S. patent rights threatens to transfer control over U.S. patent policy, governing U.S. sales of articles covered by U.S. patents, to foreign governments. Not

every system accords patent holders the same rights—including the right to decide whether to sell and on what terms—provided by U.S. law. If sales made abroad could exhaust U.S. patent rights, *foreign* law could determine the return U.S. companies would get for sales in the U.S. otherwise governed by U.S. patents.

The prospect of foreign sales under foreign law governing and exhausting U.S. rights is particularly problematic given the frequency with which, and the degree to which, U.S. and foreign patent policies diverge. Qualcomm has experienced what scholars and the U.S. government have warned of—that foreign governments have sometimes succumbed to the temptation to use their domestic competition laws to "effectively compel[] technology transfers * * * as part of a strategy for promoting" local economic development. Justin Malbon, *et al.*, *The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights* §7.43 (2014); see also U.S. Dep't of State, *2014 Investment Climate Statement* 7-8 (June 2014), http://www.state.gov/documents/organization/228504.pdf (similar). They may require such transfers to promote the interests of preferred "national champions." U.S. Dep't of State, *supra*, at 8. Sometimes the coercion is done openly; other times, the compulsion is more subtle.

One can debate the wisdom of such an approach, even in developing countries. But the territorial nature of patent law has always guaranteed that, even if a foreign nation pursues such policies within its own borders, it cannot extend its policies into the United States. A country may coerce a patentee into transferring broad rights to local companies for use in local markets. But that should have no effect on the patentee's ability to

earn a return on its U.S. patents on sales and uses in the U.S. That is a matter of U.S. policy.

Petitioner's contrary rule threatens that territorial integrity. If articles sold abroad, or by foreign licensees, exhaust U.S. patent rights, then foreign law can control the return U.S. patentees earn on sales or uses in the U.S. under their U.S. patents. For example, a foreign government might force a U.S. patentee to sell chips to its favored "national champion" on terms the patentee would not accept voluntarily and that do not reflect the value of the patentee's U.S. patent rights. Yet if that coerced foreign sale is held to exhaust the patentee's U.S. rights, the patentee could not prevent those chips, even if they are made and sold outside the U.S., from being imported and used in the U.S. in derogation of its exclusive right to its technologies, granted by U.S. patent law, for U.S. uses. Such a conflation of the effects of foreign and U.S. patent law—and boundaries—is precisely what *Boesch* rejected. This Court should reject it again here.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

DAVID J. KAPPOS
RICHARD J. STARK
CRAVATH, SWAINE & MOORE LLP
Worldwide Plaza
825 Eighth Ave.
New York, NY 10019
(212) 474-1000
dkappos@cravath.com

ROGER G. BROOKS
3804 W. Cornwallis Rd.
Durham, NC 27705
(212) 474-1072
rgbrooks@cravath.com

JEFFREY A. LAMKEN
Counsel of Record
LAUREN M. WEINSTEIN
EMILY K. DAMRAU
Admitted Only in Illinois
MOLOLAMKEN LLP
The Watergate, Suite 660
600 New Hampshire Ave., N.W.
Washington, D.C. 20037
(202) 556-2000
jlamken@mololamken.com

Counsel for Amicus Curiae

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v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF QUANTA COMPUTER INC. AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

PETER J. WIED
Counsel of Record
VINCENT K. YIP
LTL ATTORNEYS LLP
300 South Grand Avenue, 14th Floor
Los Angeles, California 90071
(213) 612-8900
peter.wied@ltlattorneys.com

Counsel for Amicus Curiae

January 24, 2017

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COUNSEL PRESS

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INTEREST OF *AMICUS CURIAE*[1]

Quanta Computer Inc. is a computer manufacturer and was the petitioner in the case *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008). In the course of its business, Quanta both purchases and sells products that embody U.S. patents. It conducts business throughout the world, and with companies located in many different countries. Knowing with certainty when U.S. patent rights are or are not applicable due to the doctrine of patent exhaustion is important in allowing Quanta to structure its business activities to avoid both unnecessary transaction costs and improper claims of patent infringement.

Furthermore, Quanta is a licensee under various worldwide licenses that include rights to U.S. Patents. Quanta has a strong interest in knowing that its customers are protected from patent infringement claims based on those worldwide licenses and the doctrine of patent exhaustion.

SUMMARY OF THE ARGUMENT

The Federal Circuit has misinterpreted this Court's precedent and unduly restricted the doctrine of patent exhaustion. Patent exhaustion derives from the same common law origin as the first sale doctrine in copyright law. Accordingly, once an authorized sale of a patented

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1. Pursuant to Rule 37.6, amicus affirms that no counsel for a party authored this brief in whole or in part and that no person other than amicus and its counsel made a monetary contribution to its preparation or submission. Respondent's letter consenting to the filing of amicus briefs has been filed with the Clerk's office. Petitioner's consent is being submitted herewith.

item is made, the patentee can no longer control the use of that item through patent law. This is true regardless of whether the seller purports to place restrictions on the use of the product, and regardless of where the authorized sale takes place.

ARGUMENT

A. Post-sale Restrictions Cannot Be Enforced Through Patent Infringement Suits

"The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta*, 553 U.S. at 625. Despite this "traditional bar on patent restrictions following the sale of an item," *id.* at 628, the Federal Circuit first held in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) that a patentee could place restrictions on the post-sale use of an item, so long as the restrictions did not constitute patent misuse. The ruling in *Mallinckrodt* (which was reaffirmed by the Federal Circuit in the decision below) was based on a misreading of this Court's precedent. Instead of allowing post-sale restrictions, this Court has consistently held that when title to a patented item is transferred in an authorized sale, "it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Bloomer v. McQueqan*, 55 U.S. (14 How.) 539, 549 (1853).

1. Permissible restrictions on the right to sell do not give rise to permissible post-sale restrictions

In the opinion below, the Federal Circuit has relied, in large part, on *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, *aff'd on reh'g*, 305 U.S. 124 (1938), and other cases that establish a patentee's right to grant restricted licenses. That analysis, however, conflates the ability of a patentee to restrict the rights of another to sell a patented product in the first instance, with the ability of a patentee to restrict the right of a party to use an item once sold. While the former is permissible, the latter is not. Indeed, the case that *General Talking Pictures* relied upon, *United States v. General Electric Co.*, 272 U.S. 476 (1926), highlighted this distinction, stating:

> It is well settled, as already said, that, where a patentee makes the patented article and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights. *Adams v. Burke*, 17 Wall. 453; *Bloomer v. McQuewan*, 14 How. 539; *Mitchell v. Hawley*, 16 Wall. 544; *Hobbie v. Jennison*, 149 U. S. 355; *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659. But the question is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell.

Id. at 489-90.

Although the license restriction in *General Talking Pictures* was framed in terms of a field of use for the patented products, it should be understood as a limitation on the parties to whom the licensee could sell. The relevant portion of the license, quoted by the Court, relates to the right "to manufacture...and to sell...only for radio amateur reception, radio experimental reception and radio broadcast reception . . ." *General Talking Pictures*, 305 U.S. at 126. The license provision is directed to the rights for manufacturing and selling by the licensee, rather than on the behavior of unknown third parties. This indicates a focus on the type of users who are authorized customers, which can be known at the time of manufacture or sale, versus the use to which a product is ultimately put, which may not be knowable. The restriction approved of by the Court in *General Talking Pictures*, like that in *General Electric*, is best understood as a restriction on to whom the product could be sold, rather than some ongoing restriction on the use of the product.

Thus, in *General Talking Pictures*, patent exhaustion was found not to apply because the seller was not licensed to sell to commercial users, and thus there was no authorized sale. *See Quanta*, 553 U.S. at 636 ("The Court [in *General Talking Pictures*] held that exhaustion did not apply because the manufacturer had ***no authority to sell*** the amplifiers for commercial use.") (emphasis added). It was not the use of the patented item that created the infringement, but rather the fact that the seller was not authorized to sell to the purchaser in the first place.[2]

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2. Of course, the use is an infringement because it is as if the consumer purchased the device from an unlicensed seller.

The Federal Circuit majority opinion creates a false dichotomy by presenting the issue as the difference between a sale by the patentee versus a sale by a nonexclusive licensee. Pet. App. 26a. It assumes that *General Talking Pictures* allows a licensee to impose post-sale restrictions on the use of a product, and therefore reasons a patentee must be able to impose any restrictions on its own customers that could be imposed by its licensee on the licensee's customers. When, however, *General Talking Pictures* is understood as presenting a limitation on the parties to whom a licensee can sell rather than a limitation on post-sale use, there is no concern about a licensee being able to do something that the patentee cannot. As *General Talking Pictures* made clear, a licensee can be limited in to whom it may sell, and when it sells to a party outside the scope of its license grant, that sale is unauthorized and patent exhaustion does not apply.

Indeed, understanding the restriction in *General Talking Pictures* to be a restriction on to whom the licensee could sell reconciles the language of *General Talking Pictures* and *General Electric*. *General Electric* does not talk of unconditional or unrestricted sales by the patentee; the ruling below would require reading into *General Electric* (as well as other precedent) an unwritten exception when the licensee attempts to restrict later uses of the product. If, however, the *General Talking Pictures* is understood to be premised upon a sale to a party to whom the licensee was not authorized to sell, there is no need to interpret *General Electric* to mean anything other than what it says on its face.

Likewise, the Court in *General Talking Pictures* expressly noted that it was not considering "the effect of

a 'licensee's notice' which purports to restrict the use of articles lawfully sold."[3] *General Talking Pictures*, 305 U.S. at 127. This statement makes no sense if the restriction which the licensee allegedly violated was already based on the use of the device in a forbidden manner by the customer, but is perfectly sensible if the restriction being addressed in *General Talking Pictures* was on the right to sell the product, and not on the right to use the product. Because the product was sold to a party to whom sales were not authorized under the license, there was no need for the Court to consider the validity of any attempt to restrict the use of the product by a customer to whom sales were authorized (i.e. "legally sold"). Similarly, in distinguishing the facts before it from a sale "in the ordinary channels of trade," the Court indicated that it was focused upon the circumstances of the sale, rather than tracing the later use of the products. *Id.*

With the proper understanding of *General Talking Pictures*, there is no difference between an authorized sale by a licensee and a sale by a patentee. A patentee is necessarily entitled to sell to anyone and thus, by definition, any sale is authorized. By contrast, a sale by a licensee, as in *General Talking Pictures*, first requires a determination of whether the sale is authorized under the license When an article is sold in an authorized sale, either because of a licensee or because the sale is by the patentee, the item is "carried outside the monopoly of the patent law and rendered free of every restriction which

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3. This Court answered the question in *Quanta*, where it held that Intel's notice to customers that they were not licensed to practice LG's patents was irrelevant to the issue of patent exhaustion. *Quanta*, 553 U.S. at 636-37.

the vendor may attempt to put upon it." *Quanta*, 553 U.S. at 626 (quoting *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917)). Any difference in outcomes between sales by patentees and sales by licensees derives from the question of authorization.

2. Allowing post-sale restrictions unduly burdens commerce and trade

The Federal Circuit's analysis below and under *Mallinckrodt* would leave numerous sales of patented products in a Schroedinger's cat-like state, where the sale is potentially authorized or unauthorized, depending upon some later action. This is not the outcome suggested by *General Talking Pictures* – the licensee there committed infringement "when it made the amplifiers for, and sold them to" the commercial user, not at some later date. *General Talking Pictures*, 305 U.S. at 126. It was the initial sale that constituted infringement, because the sale was not authorized.

A legal framework where the authorized nature of a sale turns upon some later action would impose an unworkable burden on companies like Quanta, which would have to both track any potential restrictions imposed by upstream suppliers of components, as well as the later actions of downstream consumers to determine whether any of those restrictions had been violated. The avoidance of these sorts of restraints on trade is an important reason for the long standing common law prohibition on restraints on the alienation of chattels, which underpins the doctrine of patent exhaustion. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013).

Even the Federal Circuit has rejected the notion that an authorized sale can become unauthorized later. In *Tessera, Inc. v. International Trade Commission*, 646 F.3d 1357 (Fed. Cir. 2011), the licensee failed to make the royalty payments required under its license agreement. *Id.* at 1369. Nonetheless, this later action did not operate to "convert initial authorized sales into unauthorized sales for purposes of patent exhaustion." *Id.* at 1370. Thus, the purchaser was protected by the doctrine of patent exhaustion, and the dispute was not one of patent infringement but of contract law between the licensor and licensee. *Id.* The Federal Circuit noted that the "absurd result" that a sale would later become unauthorized would cast a cloud of uncertainty over every sale, and every product in the possession of a customer of the licensee, and would be wholly inconsistent with the fundamental purpose of patent exhaustion—to prohibit post-sale restrictions on the use of a patented article. *Id.*

There is no principled reason why a post-sale action by a licensee (such as non-payment of royalties) should not change the authorized nature of a sale, but a post-sale action by the licensee's customer (such as using a product in a particular fashion) should change the authorized nature of that same sale. Indeed, given that authorization arises from the contractual relationship between the patentee and the licensee, it is unclear why a third party – e.g., the licensee's customer – should be allowed to affect that contractual relationship. This becomes even clearer when considering the supply chain of a company like Quanta, where there may be multiple levels of upstream suppliers and downstream distributors between the patentee or licensee and the end user of the product. Yet that would be the result of the ruling below,

where a sale later becomes unauthorized by the violation of a restriction on the use of the item.

3. Prior cases on "conditional sales" do not give rise to permissible post-sale restrictions

Here, the Federal Circuit rejected the traditional understanding of a conditional sale in its analysis of this Court's precedents, Pet. App. 42a n.9, but such an understanding is necessary to reconcile the law. Traditionally, a conditional sale is "a mere agreement to sell upon a condition to be performed." *Harkness v. Russell*, 118 U.S. 663, 666 (1886). Not applying patent exhaustion to such conditional sales is consistent with the common law first sale doctrine, which allowed for restrictions on use if title had not yet passed or if there were the possibility that title would revert to the seller. *See Kirtsaeng*, 133 S. Ct. at 1363. Since patent exhaustion derives from this same common law summarized in *Kirtsaeng*, it is natural that this Court's precedents would distinguish such sales. But a condition precedent should not be conflated with a post-sale restriction.

With that understanding, it is clear that sales where the transfer of title is complete (such as in this case) are not conditional, and this Court's precedents permitting restrictions in circumstances of conditional sale are not relevant to sales simply because a patentee attempts to impose a post-sale restriction.

B. Patent Rights are Exhausted by Foreign Sales

1. This Court's ruling in *Kirtsaeng* resolves the issue of foreign sales

Although *Kirtsaeng* dealt with statutory interpretation and copyrights, the theoretical basis of *Kirtsaeng* indicates that overseas sales can lead to patent exhaustion. In construing the statutory provision in question in that case, this Court noted that the statute was presumed not to have altered the previously existing common law. *Kirtsaeng*, 133 S.Ct. at 1363. The first sale doctrine in copyright, the Court observed, traces back to the common law prohibition against restraints on the alienation of chattels. *Id.* (citing Lord Coke).

The doctrine of patent exhaustion likewise traces back to attempts to "place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours." *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500-01 (1917). Given the shared origin in common law, since there is no statutory provision in patent law alleged to have altered that common law principle, if the first sale doctrine in copyright law "makes no geographical distinctions," neither can the doctrine of patent exhaustion. *Kirtsaeng*, 133 S.Ct. at 1363.

The principle that sales outside of the United States can never give rise to patent exhaustion was based upon an overly-expansive reading of *Boesch v. Graff*, 133 U.S. 697 (1890). *See Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001) (citing *Boesch*). In *Boesch*, the accused infringer purchased the infringing burners from a dealer in Germany. Although the U.S.

patent holder held a corresponding German patent, the dealer who sold the infringing burners was not licensed under either the German or U.S. patents. However, the dealer was permitted under German law to continue selling the burners because it had made preparations to do so prior to the application for the German patent. *Boesch*, 133 U.S. at 701-02.

This Court's ruling did not turn upon the fact that the sales took place in Germany, but on the fact that they were made "without the license or consent of the owners of the United States patent." *Id.* at 702. In short, there was never a sale authorized by the owner of the patent, either inside or outside of the United States. This Court has consistently held that patent exhaustion does not apply when a sale is not authorized by the patentee. *See, e.g.*, *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1873) (allowing a patent infringement case to proceed where the seller had the right to make and use, but not sell, the patented machines). *Boesch* did not create a geographic limitation on patent exhaustion, but simply followed the long-standing rule that an authorized sale is a necessary precursor to patent exhaustion. *See Quanta*, 553 U.S. at 636 ("Exhaustion is triggered only by a sale authorized by the patent holder.").

2. The holding below unduly burdens commerce and trade

The Federal Circuit's current jurisprudence on the effect of foreign sales on exhaustion is unworkable for at least two reasons. First, it conflicts with this Court's prior holdings. This Court "has quite consistently refused to allow the form into which the parties chose to cast the

transaction to govern." *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942). Yet having the application of patent exhaustion turn upon the "location" of a sale is exactly the exaltation of form over substance that this Court has refused to allow.

Further, current jurisprudence makes it difficult, if not impossible, to determine the "location" of a sale. The Federal Circuit has made clear that there is no mechanical test for determining the location of a sale. *See Litecubes, LLC v. N. Light Prods.*, 523 F.3d 1353, 1369-71 (Fed. Cir. 2008). Indeed, it has suggested that there may not even be a single location for a sale. *Carnegie Mellon Univ. v. Marvell Tech. Grp.*, 807 F.3d 1283, 1308 (Fed. Cir. 2015). ("[I]t is not even settled whether a sale can have more than one location.") Similar to the confusion seen above regarding authorized sales, companies like Quanta are again thrust into a legal regime where a sale may be both within and outside the United States, and patent exhaustion both may or may not apply. It is exactly this sort of "cloud of uncertainty over every sale" that the doctrine of patent exhaustion is intended to prevent. *See Tessera*, 646 F.3d at 1370. Such uncertainty causes significant harm in the globally-interconnected world of modern commerce.

3. Patentees will be adequately compensated if foreign sales exhaust U.S. patents

While the Federal Circuit majority below expresses concern about whether a U.S. patentee will be fairly rewarded for its invention if foreign sales trigger patent exhaustion, exploration of possible scenarios demonstrates that a patentee should be presumed to be adequately

compensated (or at least should not be able to resort to patent law if it feels it has not been). For a foreign sale to potentially be considered authorized, it must either be pursuant to license or made by the patentee itself.

In the first possibility, where a sale is made by a licensee pursuant to a worldwide license (or at least a license covering the location where the sale occurs), applying patent exhaustion to such sales is consistent with this Court's framing of the issue in *Masonite* as "whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article." *Masonite*, 316 U.S. at 278. Where a patentee grants a worldwide license, such that the licensee has the choice whether to sell the patented product within or outside of the United States, the patentee has received its reward, regardless of which choice the licensee makes. If the patentee were concerned about not receiving adequate compensation for sales outside the U.S., it could restrict the license geographically, and there would be no question that any foreign sales were not authorized.

Likewise, in the situation where the patented item is sold directly by the patent owner rather than a licensee, it is clear that the patentee has received its reward for the use of the item. The law has rejected the notion that a patentee could avoid patent exhaustion "by showing the absence or inadequacy of the patentee's reward in a transfer." *Lifescan*, 734 F.3d at 1375. Indeed, in *Lifescan*, patent exhaustion was held to apply even when the patentee had given away the patented item, and thus had received no direct "compensation" or "reward." *Id.*; *see also Kirtsaeng*, 133 S. Ct. at 1363 (quoting Lord Coke's

description of the first sale doctrine applying when a party "***give[s]*** or sell[s] his whole interest") (emphasis added). It can hardly be argued that a patentee may be adequately compensated when it gives away a patented product in the United States, but not when it sells it in another country.

This is further consistent with this Court's ruling in *Kirtsaeng*, which rejected the notion that the Constitutional provision authorizing both copyrights and patents conveyed upon recipients a right to charge different prices in different markets. "But the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices..." *Kirtsaeng*, 133 S.Ct at 1371; *see also Masonite*, 316 U.S. at 278 ("[T]he promotion of the progress of science and the useful arts is the 'main object' [of the patent system]; reward of inventors is secondary and merely a means to that end.") Arguments that a U.S. patentee would be required to sell its products at a higher price in other jurisdictions to account for exhaustion of its U.S. patent rights are thus unavailing.

CONCLUSION

For the aforementioned reasons, this Court should reverse the holding below.

Respectfully submitted,

PETER J. WIED
Counsel of Record
VINCENT K. YIP
LTL ATTORNEYS LLP
300 South Grand Avenue, 14th Floor
Los Angeles, California 90071
(213) 612-8900
peter.wied@ltlattorneys.com

Counsel for Amicus Curiae

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